

CHAPTER 1

Table of Contents

<i>Paragraph</i>	<i>Page</i>
1-000 Introduction To Contract Audit	
1-001 Scope of Chapter	101
1-100 Section 1 --- Establishment and Responsibilities of DCAA	
1-101 Introduction.....	101
1-102 Establishment and Responsibilities	101
1-103 Relationship --- DCAA and the Office of the Secretary of Defense.....	101
1-104 Nature of Contract Auditing.....	101
1-104.1 Introduction.....	101
1-104.2 Contract Audit Objective	101
1-1S1 Supplement --- DoD Directive 5105.36 --- Defense Contract Audit Agency Charter	104
1-200 Section 2 --- Relationships with the General Accounting Office	
1-201 Introduction.....	109
1-202 Relationship --- DCAA and GAO	109
1-203 GAO Access to Records and Files	109
1-203.1 Access to Audit Records and Files on Completed Audits.....	109
1-203.2 Access to Audit Records and Files on Incomplete Audits	110
1-203.3 Access to Audit Records on Replies to GAO Reports	110
1-204 Replies to GAO Reports.....	110
1-204.1 Replies to GAO Headquarters Reports	110
1-204.2 Replies to Letter Reports of GAO Regional Offices.....	111
1-204.3 Congressional Testimony.....	111
1-204.4 Explanations of Delays in Submission of Responses to GAO Reports	111
1-205 Liaison Between DCAA and General Accounting Office Activities.....	111
1-205.1 Headquarters Liaison	112
1-205.2 Regional Office Liaison	112
1-205.3 Regional Conferences with GAO.....	112
1-205.4 GAO Reviews Affecting DCAA	112

*Paragraph**Page*

1-206 Interface with the General Accounting Office in the Performance of Postaward Audits	113
1-206.1 Postaward Audit Already Performed by FAO.....	113
1-206.2 Postaward Audit not Completed by FAO.....	113
1-300 Section 3 --- Audit Services for Non-DoD Agencies	
1-301 Introduction.....	114
1-302 General Rules for Establishing Cognizance and Accepting or Rejecting Non-DoD Requests	114
1-303 Processing Non-DoD Agency Requests for Audit Information or Services	115
1-400 Section 4 --- Relationships with Other Government Organizations	
1-401 Introduction.....	117
1-402 General	117
1-403 Relationships with DoD Procurement and Contract Administration Organizations	117
1-403.1 DCAA Responsibilities to Procurement and Contract Administration Organizations	117
1-403.2 Procurement and Contract Administration Responsibilities to DCAA	117
1-403.3 Major Audit Issues.....	118
1-403.4 DCAA Participation on Contract Management Boards of Review	118
1-403.5 Signing Certificates of Non-Disclosure and Statements of Financial Interest.....	119
Figure 1-4-1 Certificate of Non-Disclosure Statement	120
1-404 Relationship with DoDIG, NASA IG and Other Executive Branch Internal Audit Organizations	121
1-404.1 Organizations for Government Internal Audit	121
1-404.2 DCAA Assistance to Government Internal Audit Organizations	121
1-404.3 Government Internal Audit Organization Assistance to DCAA	122
1-404.4 Interfacing with Government Internal Audit Organizations....	122
1-404.5 Oversight Reviews	122
1-404.6 Issuance of Audit Reports	123

1-404.7 Relationship with the DoDIG and Military Inspectors	
General.....	123
1-405 Relationship With Investigative Agencies of the Government.....	123
1-406 Relationship with Government Legal Counsel in Contract Disputes, Bid	
Protests, and Other Matters	124
1-406.1 Armed Services Board of Contract Appeals (ASBCA)	124
1-406.2 Other Boards.....	125
1-406.3 Bid Protests.....	125
1-407 Relationship with Component Remedies Coordinators.....	125
1-408 Relationship with the Internal Revenue Service (IRS)	126
1-409 Relationship with Members of Congress and Congressional	
Committees	126
1-409.1 Written Requests for Information	127
1-409.2 Meetings with and Visits by Congressional Committees	127
1-4S1 Supplement --- Illustrative Audit Situations Involving Interface	
Between Contract and Internal Audit Organizations.....	128
1-500 Section 5 --- Relationship with Contractors	
1-501 Introduction.....	130
1-502 Establishment of DCAA Field Audit Offices (FAOs) and Suboffices	130
1-502.1 General.....	130
1-502.2 Establishment of Branch Offices.....	130
1-502.3 Establishment of Resident Offices	130
1-502.4 Change of FAO Cognizance	131
1-503 Notification of Visits to Contractor Facilities	131
1-503.1 Security Requirements and Procedures.....	131
1-503.2 Required Notification to Contract Administration Offices	
and Courtesy Notice to Contractors	132
1-504 Access to Records of Contractor	132
1-504.1 General.....	132
1-504.2 Statutory and Regulatory Requirements.....	133
1-504.3 Guidance for Requesting Access to Contractor Records	133
1-504.4 Conditions Representing Denial of Access to Contractor	
Records	134
1-504.5 Resolution of Contractor Denials.....	135
1-504.6 Impact of Contractor Denial of Access	135

*Paragraph**Page*

1-505 Other Access to Records Issues -- Transfer of Records from Hard Copy to Computer Medium.....	135
1-506 Other Access to Records Issues -- Records Destroyed or Not in Condition for Audit.....	136
1-507 Security Requirements for Contractor Information	137
1-508 Assistance in Preparing Claims Against the Government	137

1-600 Section 6 --- Relationship with the News Media

1-601 Introduction.....	138
1-602 General	138
1-603 Processing Requests for Information.....	138

1-700 Section 7 --- Processing Freedom of Information Act (FOIA) Requests

1-701 Introduction.....	139
1-702 General	139
1-703 Scope of the Statute.....	139
1-704 Processing Requests for Information under FOIA	139

1-800 Section 8 --- Auditor Participation on Contractor and Government Process Action Teams (PATs); Integrated Product Teams (IPTs); Management Councils; and Related Streamlined Acquisition Initiatives

1-801 PATs - General.....	140
1-802 Auditor's Role on Contractor Teams Such as PATs, Steering Committees, and Management Advisory Boards	140
1-803 Auditor's Role on Government PATs.....	141
1-804 Integrated Product Teams (IPTs) - Background.....	141
1-805 Auditor's Role on DoD IPTs and Related Streamlined Acquisition Initiatives.....	142
1-806 Management Councils, Single Process Initiative (SPI), and Cost- Benefit Analysis	143
1-806.1 Management Councils.....	143
1-806.2 Single Process Initiative (SPI)	143
1-806.3 Cost-Benefit Analysis	144
1-807 Memorandum of Agreement	145
Figure 1-8-1 Notification Letter to Contractor	146
Figure 1-8-2 Acknowledgement Letter for DCAA Participation on IPT Proposal Examination	147

July 2003

1(5)

Paragraph

Page

Figure 1-8-3 Acknowledgement Letter for DCAA Participation on IPT

Application of Agreed-Upon Procedures 148

CHAPTER 1**1-000 Introduction To Contract Audit****1-001 Scope of Chapter**

This chapter introduces the chapters and appendixes which follow. It provides information on the contract audit mission;

responsibilities of DCAA and the contract auditor; and the relationships of DCAA to other Department of Defense components, other government agencies, and contractors.

1-100 Section 1 --- Establishment and Responsibilities of DCAA**1-101 Introduction**

This section describes the establishment, responsibilities, and inter-organizational relationship of DCAA.

authority, and control of the Under Secretary of Defense (Comptroller). Supplement 1-1S1 contains the Agency charter, DoD Directive 5105.36.

1-102 Establishment and Responsibilities

a. The Defense Contract Audit Agency was established by a directive of the Department of Defense for the purpose of performing all contract auditing for the Department of Defense (DoD) and providing accounting and financial advisory services, in connection with the negotiation, administration and settlement of contracts and subcontracts, to all DoD procurement and contract administration activities. DCAA also furnishes contract audit service to other government agencies (see 1-302b.).

b. The role of the auditor is advisory, except that on cost-type contracts the auditor is required to comply with specific contract provisions. Procedures for such compliance are discussed in Chapter 6.

c. Although the detection of fraud or similar unlawful activity is not the primary function of contract audit, the auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the contractor submissions and supporting data are free of material misstatement, whether caused by error or by fraud. When fraud or similar unlawful activity is suspected, the auditor shall be guided by 4-700.

1-103 Relationship --- DCAA and the Office of the Secretary of Defense

DCAA is a separate agency of the Department of Defense under the direction,

1-104 Nature of Contract Auditing**1-104.1 Introduction**

The following paragraphs state the objective of contract auditing and in broad terms how the objective is accomplished.

1-104.2 Contract Audit Objective

a. The purpose of contract auditing is to assist in achieving prudent contracting by providing those responsible for government procurement with financial information and advice relating to contractual matters and the effectiveness, efficiency, and economy of contractors' operations. Contract audit activities include providing professional advice on accounting and financial matters to assist in the negotiation, award, administration, repricing and settlement of contracts. Audit interest encompasses the totality of the contractor's operations. Audits are performed to assure the existence of adequate controls which will prevent or avoid wasteful, careless, and inefficient practices by contractors. These audits include the evaluation of a contractor's policies, procedures, controls and actual performance, identifying and evaluating all activities which either contribute to, or have an impact on, proposed or incurred costs of government contracts. Areas of concern to the auditor include the adequacy of contractor's policies, procedures, practices, and internal controls relating to

accounting, estimating, and procurement; the evaluation of contractors' management policies and decisions affecting costs; the accuracy and reasonableness of contractors' cost representations; the adequacy and reliability of contractors' records for government-owned property; the financial capabilities of the contractor; and the appropriateness of contractual provisions having accounting or financial significance. The auditor should recommend such changes as the audit discloses to be warranted. The terms "examination," "review," or "application of agreed-upon procedures" refer to evaluations by contract auditors of contractors' statements of costs to be incurred (cost estimates) or statements of cost actually incurred to the extent deemed appropriate by the auditors in the light of their experience with the contractors and relying upon their appraisals of the effectiveness of the contractors' policies, procedures, controls, and practices. Such evaluations may consist of desk reviews, test checks of a limited number of transactions, or examinations in depth at the discretion of the auditors.

b. To accomplish the objective of contract auditing, the auditor must examine or develop sufficient evidence to support a valid opinion of the extent to which costs or estimates contained in a contractor's claim or proposal are (1) reasonable as to nature and amount, (2) allocable, and measurable by the application of duly promulgated cost accounting standards, and (3) generally accepted accounting principles and practices appropriate to the particular circumstances; and (4) in accordance with applicable cost limitations or exclusions as stated in the contract or in FAR. The auditor will find it extremely useful at the onset of the examination, in planning the audit program and approach to review the contractor's accounting nomenclature, chart of accounts, accounting manuals and financial statements. It should, however, be recognized that professional opinions and conclusions on the acceptability of contract costs must be based on the auditor's knowledge of the contractor's classification practices and the actual nature of the expenditures charged to the various accounts and clas-

sifications. This knowledge is best gained by selective testing of transactions recorded in the various accounts.

c. The auditor should at all times be alert to any matters that may affect the government's prudent and efficient management of its procurement program. When the auditor becomes aware of the need for improved government practices, the appropriate office should be advised and, to the maximum extent feasible, the corrective measures should be recommended in the audit report.

d. In performing normal auditing procedures in connection with an examination, auditors should be alert for indications of excessive contract prices or profits and for evidence of overcharges or inadequate compensation to the government. If the auditor finds an indication of such a condition, he or she should discuss it with the supervisor to decide whether further evaluation is warranted and whether the condition is properly reportable as one involving (1) suspected fraud or other similar irregularities (4-700); (2) defective pricing (14-100); or (3) solicitation of a voluntary refund (4-800). Guidance for determining which of the above reporting procedures should be used is contained in the referenced paragraphs. If the condition is not reportable under the foregoing guidance, a report stating the pertinent facts should nevertheless be submitted to Headquarters, DCAA, Attention: Deputy Assistant Director, Operations.

e. FAR 15.408(b) prescribes the insertion of a "defective pricing" clause (FAR52.215-10) which accords the government a contractual basis for reducing the contract price under certain conditions. When, after contract execution, it is learned that the contract price was negotiated on the basis of cost or pricing data furnished by the contractor that was incomplete, inaccurate or not current, the contracting officer may reduce the contract price. Guidance concerning the auditor's role in this area is stated in Chapter 14.

f. FAR 52.230-2 prescribes the insertion into contracts and subcontracts of a "cost accounting standards" clause which requires certain contractors or subcontractors to disclose in writing their cost accounting practices, to follow the disclosed practices con-

sistently, to comply with duly promulgated cost accounting standards, and to agree to contract price adjustment for any increased cost to the government as a result of the contractor's failure to comply with applicable cost accounting standards. Guidance concerning the auditor's role with respect to cost accounting standards is stated in Chapter 8.

g. FAR 16.102(c) provides that the cost-plus-a-percentage-of-cost system of

contracting shall not be used by the government for any prime contract; or allowed to be used in any chain of cost or redeterminable subcontracts, unbroken by a firm-fixed-price subcontract. If such a contract or subcontract is encountered, the entire cost, including the amount representing the percentage added, will be disapproved under cost-type contracts and recommended for nonacceptance under fixed-price redeterminable contracts.

1-1S1 Supplement --- DoD Directive 5105.36 --- Defense Contract Audit
Agency Charter



Department of Defense
DIRECTIVE

NUMBER 5105.36

February 28, 2002

DA&M

SUBJECT: Defense Contract Audit Agency (DCAA)

- References: (a) Title 10, United States Code
(b) DoD Directive 5105.36, "Defense Contract Audit Agency," June 8, 1978 (hereby canceled)
(c) DoD Directive 8910.1, "Management and Control of Information Requirements," June 11, 1993
(d) DoD 5025.1-M, "DoD Directive System Procedures," August 1994

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1. REISSUANCE AND PURPOSE

Pursuant to the authority provided in reference (a), this Directive reissues reference (b) to update the responsibilities, functions, authorities, and relationships as outlined below.

2. APPLICABILITY

This Directive applies to the Office of the Secretary of Defense, the Military Departments, the Chairman of the Joint Chiefs of Staff, the Combatant Commands, the Office of the Inspector General of the Department of Defense, the Defense Agencies, the DoD Field Activities, and all other organizational entities within the Department of Defense (hereafter referred to collectively as "the DoD Components").

3. MISSION

The Defense Contract Audit Agency (DCAA) shall:

3.1. Perform all necessary contract audit for the Department of Defense and pro-

vide accounting and financial advisory services regarding contracts and subcontracts to all DoD Components responsible for procurement and contract administration. These services will be provided in connection with negotiation, administration, and settlement of contracts and subcontracts.

3.2. Provide contract audit service to other Government Agencies, as appropriate.

4. ORGANIZATION AND MANAGEMENT

4.1. The DCAA is established as a separate Agency of the Department of Defense under the authority, direction, and control of the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO). It shall consist of a Director and such subordinate organizational elements as are established by the Director within resources authorized by the Secretary of Defense.

4.2. No separate contract audit organization independent of the DCAA shall be established in the Department of Defense.

5. RESPONSIBILITIES AND FUNCTIONS

The Director, Defense Contract Audit Agency shall:

5.1. Organize, direct, and manage the DCAA and all assigned resources.

5.2. Assist in achieving the objective of prudent contracting by providing DoD officials responsible for procurement and contract administration with financial information and advice on proposed or existing contracts and contractors, as appropriate.

5.3. Audit, examine and/or review contractors' and subcontractors' accounts, records, documents, and other evidence; systems of internal control; accounting, costing, and general business practices and procedures; to the extent and in whatever manner is considered necessary to permit proper performance of the other functions described in paragraphs 5.4. through 5.12., below.

5.4. Approve, suspend, or disapprove costs on reimbursement vouchers received directly from contractors, under cost-type contracts, transmitting the vouchers to the cognizant Disbursing Officer.

5.5. Provide information and advice on proposed or existing contracts and contractors, as contemplated by paragraph 5.2., including, but not limited to, the following areas:

5.5.1. Acceptability of costs incurred under redeterminable, incentive, and similar type contracts.

5.5.2. Acceptability of incurred costs and estimates of cost to be incurred as represented by contractors incident to the award, negotiation, modification, change, administration, termination, or settlement of contracts.

5.5.3. Adequacy of financial or accounting aspects of contract provisions.

5.5.4. Adequacy of contractors' accounting and financial management systems,

estimating procedures, and property controls.

5.6. Assist responsible procurement or contract administration activities in their surveys of the purchasing-procurement systems of major contractors.

5.7. Direct audit reports to the Government management level having authority and responsibility to take action on the audit findings and recommendations.

5.8. Cooperate with other appropriate DoD Components on reviews, audits, analyses, or inquiries involving contractors' financial position or financial and accounting policies, procedures, or practices.

5.9. Establish and maintain liaison auditors and financial advisors, as appropriate, at major procuring and contract administration offices.

5.10. Review General Accounting Office reports and proposed responses thereto, which involve significant contract or contractor activities for the purpose of ensuring the validity of appropriate pertinent facts contained therein.

5.11. In an advisory capacity, attend and participate, as appropriate, in contract negotiation and other meetings where contract cost matters, audit reports, or related financial matters are under consideration.

5.12. Provide assistance, as requested, in the development of procurement policies and regulations.

5.13. Report incidents of fraud, waste, and abuse to the appropriate authorities.

5.14. Perform such other functions as may be assigned by the Secretary and Deputy Secretary of Defense or USD(C)/CFO.

6. AUTHORITY

The Director, DCAA, is specifically delegated authority to:

6.1. Communicate directly with the Heads of the DoD Components, as necessary, to

carry out assigned functions, including the transmission of requests for advice and assistance. Communications to the Military Departments shall be transmitted through the Secretaries of the Military Departments, their designees, or as otherwise provided in law or directed by the Secretary of Defense in other DoD issuances. Communications to the Commanders of the Combatant Commands shall be transmitted through the Chairman of the Joint Chiefs of Staff except those communications dealing solely with contract audit functions.

6.2. Communicate with other Government officials, representatives of the legislative branch, members of the public, and representatives of foreign governments, as appropriate, in carrying out assigned functions.

6.3. Obtain reports and information consistent with the policies and criteria of DoD Directive 8910.1 (reference (c)), as necessary, to carry out assigned functions.

6.4. Issue DoD Instructions, DoD Publications, and one-time directive-type memoranda, consistent with DoD 5025.1-M (reference (d)), which implement policy approved by the Secretary of Defense in assigned areas of responsibility. Instructions to the Military Departments shall be issued through the Secretaries of the Military Departments. Instructions to the Combatant Commands shall be communicated through the Chairman of the Joint Chiefs of Staff.

6.5. Establish DCAA facilities using appropriate established physical facilities and services of other DoD Components whenever practicable to achieve maximum efficiency and economy.

6.6. Exercise the administrative authorities contained in enclosure 1 of this Directive.

7. RELATIONSHIPS

7.1. In the performance of assigned responsibilities and functions, the Director, DCAA shall:

7.1.1. Maintain appropriate liaison with other components of the Department of Defense, other Executive Departments and Agencies, the General Accounting Office foreign governments, and private sector organizations for the exchange of information and programs in the field of assigned responsibilities.

7.1.2. Receive support from the Military Departments and other DoD Components within their respective fields of responsibility to assist in carrying out the assigned responsibilities and functions of the Agency.

7.2. Procurement and contract administration activities of the DoD Components shall utilize audit services of the DCAA to the extent appropriate in connection with the negotiation, administration, and settlement of contract payments and prices that are based on cost (incurred or estimated), or on cost analysis.

8. ADMINISTRATION

8.1. The Director, DCAA, shall be a civilian appointed by the Secretary of Defense.

8.2. The appointment of other personnel to the Agency will be subject to the approval of the Director, DCAA or his/her designee.

8.3. DCAA shall utilize existing facilities and services of the Department of Defense and other Federal Agencies, whenever practicable, to avoid duplication and to achieve an appropriate balance among modernization, efficiency, and economy.

8.4. The Military Departments shall assign military personnel to DCAA in accordance with approved authorizations and procedures for assignment to joint duty.

8.5. DCAA will be authorized such personnel, facilities, funds, and other administrative support as the Secretary of Defense deems necessary.

9. EFFECTIVE DATE

This Directive is effective immediately.

Enclosures - 1

E1. Delegations of Authority

E1. ENCLOSURE 1
DELEGATIONS OF AUTHORITY

E1.1.1. Pursuant to the authority vested in the Secretary of Defense, and subject to the authority, direction, and control of the Secretary of Defense and the Under Secretary of Defense (Comptroller)/Chief Financial Officer, and in accordance with DoD policies, Directives, and Instructions, the Director, Defense Contract Audit Agency (DCAA), or, in the absence of the Director, the person acting for the Director, is hereby delegated authority as required in the administration and operation of DCAA to:

E1.1.1.1. Exercise the powers vested in the Secretary of Defense by 5 U.S.C. 301, 302(b), 3101, and 5107 on the employment, direction, and general administration of DCAA civilian personnel.

E1.1.1.2. Fix rates of pay of wage-rate employees exempted from the Classification Act of 1949 by 5 U.S.C. 5102 on the basis of rates established under the Federal Wage System. In fixing such rates, the Director, DCAA, shall follow the wage schedule established by the DoD Wage Fixing Authority.

E1.1.1.3. Administer oaths of office to those entering the Executive Branch of the Federal Government or any other oath required by law in connection with employment therein, in accordance with 5 U.S.C. 2903, and designate in writing, as may be necessary, officers and employees of the DCAA to perform this function.

E1.1.1.4. Establish a DCAA Incentive Awards Board and pay cash awards to, and incur necessary expenses for the honorary recognition of, civilian employees of the Government whose suggestions, inventions, superior accomplishments, or other personal efforts, including special acts or services, benefit or affect the DCAA, in accordance with 5 U.S.C. 4503, Office of Personnel Management (OPM) regulations, and DoD 1400.25-M, Chapter 400, Subchapter 451.

E1.1.1.5. Maintain an official seal and attest to the authenticity of official records under the seal.

E1.1.1.6. Establish advisory committees and employ temporary or intermittent experts or consultants, as approved by the Secretary of Defense, for the performance of DCAA functions consistent with 10 U.S.C. 173; 5 U.S.C. 3109(b); and DoD Directive 5105.4, "Department of Defense Federal Advisory Committee Management Program."

E1.1.1.7. In accordance with Executive Order 10450, "Security Requirements for Government Employment," April 27, 1953; Executive Order 12333, "United States Intelligence Activities," December 4, 1981; and Executive Order 12968, "Access to Classified Information," August 4, 1995; and DoD Directive 5200.2, "DoD Personnel Security Program," as appropriate:

E1.1.1.7.1. Designate any position in DCAA as a "sensitive" position.

E1.1.1.7.2. Authorize, in case of an emergency, the appointment of a person to a sensitive position in the DCAA for a limited period of time for whom a full field investigation or other appropriate investigation, including the National Agency Check, has not been completed.

E1.1.1.7.3. Initiate personnel security investigations and, if necessary, in the interest of national security, suspend a security clearance for personnel assigned, detailed to, or employed by the DCAA. Any actions under this paragraph shall be taken in accordance with procedures prescribed in DoD 5200.2-R, "Personnel Security Program."

E1.1.1.8. Authorize and approve:

E1.1.1.8.1. Temporary duty travel only for military personnel assigned or detailed to

the DCAA in accordance with Joint Travel Regulations (JFTR), Volume 1, "Uniformed Service Members," current edition.

E1.1.1.8.2. Travel for DCAA civilian personnel in accordance with Joint Travel Regulations (JTR), Volume 2, "DoD Civilian Personnel," current edition.

E1.1.1.8.3. Invitational travel to non-DoD personnel whose consultative, advisory, or other highly specialized technical services are required in a capacity that is directly related to, or in connection with DCAA activities, in accordance with JTR, Volume 2, "DoD Civilian Personnel."

E1.1.1.8.4. Overtime work for DCAA civilian personnel in accordance with 5 U.S.C. Chapter 55, Subchapter V, and applicable OPM regulations.

E1.1.1.9. Approve the expenditure of funds available for travel by military personnel assigned or detailed to the DCAA for expenses incident to attendance at meetings of technical, scientific, professional or other similar organizations in such instances when the approval of the Secretary of Defense, or his designee, is required by 37 U.S.C. 412 and 5 U.S.C. 4110 and 4111.

E1.1.1.10. Develop, establish and maintain an active and continuing Records Management Program, pursuant to 44 U.S.C. 3102 and DoD Directive 5015.2, "DoD Records Management Program."

E1.1.1.11. Utilize the Government purchase card for making micro-purchases of material and services, other than personal services, for the DCAA when it is determined more advantageous and consistent with the best interests of the Government.

E1.1.1.12. Authorize the publication of advertisements, notices or proposals in newspapers, magazines or other public periodicals as required for the effective

administration and operation of the DCAA consistent with 44 U.S.C. 3702.

E1.1.1.13. Establish and maintain, for the functions assigned, an appropriate publications system for the promulgation of common supply and service regulations, instructions, and reference documents, and changes thereto, pursuant to the policies and procedures prescribed in DoD 5025.1-M, "DoD Directives System Procedures."

E1.1.1.14. Enter into support and service agreements with the Military Departments, other DoD Components, or other Government Agencies, as required, for the effective performance of DCAA functions and responsibilities.

E1.1.1.15. Establish and maintain appropriate property accounts for the DCAA and appoint Boards of Survey, approve reports of survey, relieve personal liability, and drop accountability for DCAA property contained in the authorized property accounts that has been lost, damaged, stolen, destroyed, or otherwise rendered unserviceable, in accordance with applicable laws and regulations.

E1.1.1.16. Promulgate the necessary security regulations for the protection of property and places under the jurisdiction of the Director, DCAA, pursuant to DoD Directive 5200.8, "Security of DoD Installations and Resources."

E1.1.1.17. Lease property under the control of the DCAA, under terms that will promote the national defense or that will be in the public interest, pursuant to 10 U.S.C. 2667.

E1.1.2. The Director, DCAA may redelegate these authorities as appropriate, and in writing, except as otherwise specifically indicated above or as otherwise provided by law or regulation.

E1.1.3. This delegation of authority is effective immediately.

1-200 Section 2 --- Relationships with the General Accounting Office**1-201 Introduction**

This section contains procedures and guidance on (1) granting the General Accounting Office access to DCAA audit records and files, (2) submitting information and comments to Headquarters for replies to General Accounting Office (GAO) reports, (3) coordinating DCAA and GAO activities to ensure effective working relationships, and (4) coordinating DCAA and GAO performance of postaward audits of cost or pricing data for possible defective pricing. Relationships with members of Congress and Congressional committees are discussed at 1-410.

1-202 Relationship --- DCAA and GAO

a. The GAO has broad authority for conducting audits and investigations to enable the Comptroller General, as an agent of Congress, to determine whether executive departments and government agencies properly discharge their financial responsibilities. In connection with the audit of the procurement function, the GAO is granted access to contractors' records by law and by contract provisions. DoD personnel at all levels will cooperate fully with representatives of the General Accounting Office.

b. The Quality Assurance Division (PQA) monitors and coordinates all GAO matters in accordance with DoDD No. 7650.3, Followup on General Accounting Office, DoD Inspector General, Internal Audit, and Internal Review Reports; No. 7650.1, General Accounting Office Access to Records; and No. 7650.2, General Accounting Office Audits and Reports.

1-203 GAO Access to Records and Files

a. When requested by GAO, furnish audit reports and associated working papers in accordance with DoDD 7650.1, General Accounting Office Access to Records, and DCAAR Number 5205.1, DCAA Information Security Program, and the procedures below. Advance approval of regional offices or Headquarters is not required, provided that the GAO has noti-

fied the Secretary of Defense and DCAA of the review and held an entrance conference with DoD officials.

b. Do not furnish non-DoD agency reports, military department reports, non-DoD Inspector General reports, or criminal investigation organization reports (including the FBI) unless approved by DCAA Headquarters. This restriction also applies to summaries of such reports.

c. Promptly submit pertinent information to the Regional Quality Assurance Division (or other designated regional office element) and Headquarters, ATTN: PQA. Identify the information furnished to GAO.

1-203.1 Access to Audit Records and Files on Completed Audits

a. When requested, grant GAO representatives unlimited access to audit records and files applicable to completed audits. This includes access to files on all types of system surveys, audit programs, working papers, correspondence on cost allowances, notices of cost suspended or disapproved, contracts, and audit reports.

b. Cooperate with GAO representatives by providing copies of existing reports and other documents. When furnishing contractor proprietary information to the GAO (e.g., documents marked For Official Use Only (FOUO) or documents that are believed to contain contractor proprietary data), include the following statement in the transmittal memorandum:

"Please be advised that the contractor financial and accounting system information contained in this [letter / report / enclosure] is considered proprietary by the company and should not be released to the public. The information made available to you in this [letter / report / enclosure] contains financial data furnished to the government in confidence. Such information must be protected from unauthorized disclosure under 18 U.S.C. 1905. For this reason, the [letter / report / enclosure] has been marked FOR OFFICIAL USE ONLY."

c. FAOs should also cooperate with GAO representatives requesting data and/or the completion of questionnaires. Refer GAO data requests that require the preparation of extensive analyses or schedules to Headquarters, ATTN: PQA. (Also see b above.)

d. Encourage the GAO representatives to perform their analytical effort onsite, both to minimize the use of DCAA resources and to enable the auditor to explain or clarify data if required.

1-203.2 Access to Audit Records and Files on Incomplete Audits

Resolve requests for access to records and files applicable to incomplete audits with the GAO representatives on an individual case basis. Make every effort to dissuade the GAO representative from examining records and files on incomplete audits, because any audit conclusions included therein are tentative. They do not represent the official position of DCAA until the audit is completed and the report issued. This does not preclude granting the GAO access to any factual data contained in the records or files.

1-203.3 Access to Audit Records on Replies to GAO Reports

Refer GAO requests for access to copies of correspondence or memorandums prepared to assist DCAA Headquarters and military departments or agencies in the formulation of an official reply to a GAO draft report or final report to Headquarters, ATTN: PQA. This information requires special consideration because it does not represent the final position of DCAA or the military department or agency concerned with the report.

1-204 Replies to GAO Reports

a. GAO reporting on defense contracting is primarily accomplished through (1) reports (draft and final) issued by its headquarters office and addressed to the Secretary of Defense, the Secretaries of the Military Departments, or heads of Defense agencies; (2) letter reports issued by GAO regional offices directly to officials of field

activities of the Military Departments or DoD agencies, and (3) congressional testimony.

b. DCAA will generally be requested to submit comments and participate in formulating the official DoD position on the cost aspects and related recommendations in GAO reports issued on defense contractors and on contract audit matters.

1-204.1 Replies to GAO Headquarters Reports

a. These reports generally pertain to defense contracting. They are initially submitted in draft form with a request for an official response and comments. The response is usually incorporated in the final GAO report.

b. The Deputy Director for GAO Affairs, under the Director for Audit Followup, Office of the Assistant Inspector General for Audit refers all proposed DoD responses to GAO Headquarters reports related to procurement or contract audit matters to DCAA Headquarters for concurrence or comment prior to approval for signature elsewhere in the Department of Defense.

c. In advance, Headquarters reviews GAO reports that may require comment. The cognizant Headquarters element will immediately transmit the report to the regional office(s) and FAO(s) involved if field action or input is required. The cognizant regional office or FAO will prepare the field office response in accordance with paragraph d. below and any special requests stated in the Headquarters transmittal.

d. Review and evaluate the factual information, the surrounding circumstances, and the conclusions presented in the report. Comment on any corrective action taken or proposed. In addition, note any GAO report statements that are not fully compatible with audit findings or on which information is not available. To minimize elapsed time, conferences with the GAO review team may be necessary. In this case, make an appropriate request to the local GAO office or to the cognizant Headquarters element, depending on the origin of the GAO report.

e. In some cases the primary action office requests Headquarters to perform

audits or examine specific contractor records to aid in formulating the DoD position on a GAO report. In these instances, Headquarters will establish a firm due date for the response and forward the request directly to the field audit office, with copies to the regional office. Submit the field audit office's reply to the cognizant Headquarters element with a copy to the regional office.

f. Field audit offices may receive direct requests from procurement or contract administration field components for audit service on specific GAO reports. Promptly forward copies of all correspondence, memorandums of conversations, and reports prepared in response to such requests to Headquarters, ATTN: PQA, with copies to the cognizant regional office.

g. Procedures for responding to GAO reviews are set forth in DCAAI 7050.2, "Responding to Oversight Reviews." Procedures for monitoring compliance with GAO recommendations are set forth in DCAAR 7640.12, "Follow-up on Audit Reports Concerning Defense Contract Audit Agency Operations."

1-204.2 Replies to Letter Reports of GAO Regional Offices

a. GAO regional offices may issue letter reports on defense contracting directly to officials of field activities of DoD agencies or the military departments. Letter reports include any written communication from GAO requiring written response. These reports generally relate to matters of less significance than GAO Headquarters reports. They are addressed to the particular field activity responsible for the matters reported upon or for the implementation of any recommendations contained in the report. Thus, letter reports may be addressed to field procurement or contract administration offices or to DCAA field offices.

b. Prepare responses to GAO letter reports for the signature of the regional director. To assure uniformity in responses and conformity with DCAA policy, submit drafts of the proposed responses to Headquarters, ATTN: PQA, for concurrence prior to issuance. When

necessary to meet a deadline, concurrence of Headquarters (PQA) may be obtained by telephone.

c. FAOs may receive requests directly from a field procurement or contract administration office for audit information in connection with their responses to letter reports which were addressed to them. Honor such requests pertaining to contract audit responsibility. Prepare the response for the regional director's signature and reply directly to the requesting activity. Forward copies of all correspondence and reports prepared in response to such requests to Headquarters, ATTN: PQA.

1-204.3 Congressional Testimony

a. GAO also reports on defense contracting through testimony presented before Congress. Occasionally DCAA Headquarters is requested to analyze the testimony in advance for factual accuracy and concurrence. These requests often have a short response time, and regional or field office input is usually not feasible.

b. Procedures to be followed in providing testimony to Congress are set forth in DCAAR 5030.16, "Supporting Congressional Requests for Information."

1-204.4 Explanations of Delays in Submission of Responses to GAO Reports

Promptly submit an interim reply to the cognizant Headquarters element with a copy to the regional office, when a complete response cannot be submitted by the established due date. State the specific reasons the due date cannot be met and the estimated time needed to complete the evaluation. Address as many of the report findings, conclusions, and recommendations as possible.

1-205 Liaison Between DCAA and General Accounting Office Activities

Maintain formal and informal liaison between DCAA and GAO at the headquarters and/or regional office levels to establish an effective working relationship. This is not intended to diminish or detract from

the statutory and executive responsibilities, functions, or independence of either GAO or DCAA.

1-205.1 Headquarters Liaison

Maintain direct headquarters-to-headquarters liaison between DCAA and GAO to (1) resolve field operating problems requiring Headquarters attention, (2) coordinate studies to be performed by GAO affecting the contract audit area, and (3) exchange ideas and training material in connection with improving the performance of the two agencies.

1-205.2 Regional Office Liaison

a. Determine the level and frequency of communication with GAO regional officials by assessing local conditions and GAO involvement in contract audit matters. Regional directors should decide on the need for local conferences (see 1-205.3) and periodically visit or contact GAO representatives located within their regional boundaries to explore the need for more formal information exchange. Periodic meetings are encouraged to resolve specific problems and to discuss the results of individual GAO reviews of contractor activities containing significant contract audit findings.

b. In those cities where GAO has a regional office and DCAA does not, designate a branch manager or resident auditor as a DCAA regional liaison representative to provide a local contact point to facilitate day-to-day working relationships and to resolve problems.

c. Submit a copy of the minutes of any formal liaison meeting to Headquarters, ATTN: PQA.

1-205.3 Regional Conferences with GAO

a. Regional directors are encouraged to schedule periodic conferences to promote free and open discussions between GAO and DCAA at the regional level. Conferences should cover current items of common interest, such as plans for added or decreased emphasis in specified areas of responsibility, technical problems, audit approaches and techniques, and working

relationships. Conference objectives should be to identify and resolve common problems, avoid duplication, and improve audit techniques and coverage.

b. Where more than one GAO regional office is located within the geographical jurisdiction of a DCAA regional office, encourage all of the GAO regional directors concerned to attend the conference, unless the GAO region is not significantly involved with contract audit work. Similarly, where the geographical jurisdiction of a GAO regional office overlaps DCAA regions, it may be appropriate for DCAA regional directors to attend conferences held by other DCAA regional directors.

c. Submit a copy of the minutes of any formal liaison conference to Headquarters, ATTN: PQA.

1-205.4 GAO Reviews Affecting DCAA

a. Except for congressional requests, GAO regional directors are expected to inform DCAA of the scope of GAO planned and in-process reviews concerning contractors under DCAA audit cognizance. GAO generally contacts DCAA at the start of every review, conducts an exit conference at the end of such reviews, and furnishes a copy of the draft and/or final report. Before providing access to the GAO reviewer, determine that the review has been properly coordinated in accordance with DCAAI 7050.2, which also contains detailed procedures for support of oversight reviews affecting DCAA.

b. When GAO is involved in reviews of DCAA or in audits at contractor plants under DCAA cognizance, work closely with GAO to assure that there is proper understanding of DCAA objectives and methods to avoid GAO duplication of our work and to determine reliance to be placed upon the work of GAO (see 4-1000).

c. Provide written notification to the Regional Quality Assurance Division (or other designated regional office element) and Headquarters, ATTN: PQA, of all GAO visits to FAOs or contractor sites.

d. As required by DCAAI 7050.2, a reviewed FAO will provide a written

memorandum of significant issues to the regional office including, Chief, Regional Quality Assurance Division within ten working days of an oversight visit. The region will forward the FAO's memorandum to Headquarters, PQA within five additional working days.

1-206 Interface with the General Accounting Office in the Performance of Postaward Audits

DCAA is the responsible DoD agency for establishing and conducting a program for performing regularly scheduled audits of contractor cost or pricing data for possible defective pricing (14-100). GAO responsibilities include DoD's adherence to applicable laws, regulations, and procedures in negotiating noncompetitive contracts, including whether defective pricing audits are adequately performed. Observe the following procedures whenever GAO has an interest in the cost or pricing data submitted for negotiation of a contract or subcontract.

1-206.1 Postaward Audit Already Performed by FAO

Provide the results of the audit to the GAO representatives on request, per 1-203.1.

1-206.2 Postaward Audit not Completed by FAO

DCAA has the primary responsibility for performing defective pricing audits. Therefore, GAO will coordinate its contract and subcontract defective pricing audit work with cognizant field audit offices and rely on the contract auditor's work where possible. Avoid duplication of audit effort by following the procedures below:

a. If the FAO has a postaward audit scheduled that is of interest to GAO, discuss the audit plans with GAO and attempt to reach agreement on an audit schedule which provides for audit performance by DCAA. Eliminate the contract or subcontract from the audit schedule if agreement cannot be reached and the GAO performs the audit. In these situations, GAO is expected to perform a defective pricing audit of all contract cost elements. Promptly notify the regional office and Headquarters, ATTN: PQA, if GAO plans to perform only a partial review.

b. If the GAO identifies a contract or subcontract for postaward audit which had not been selected for audit by DCAA, attempt to reach agreement on an audit schedule which provides for audit performance by DCAA.

1-300 Section 3 --- Audit Services for Non-DoD Agencies

1-301 Introduction

This section provides guidance for performing audit services for non-DoD agencies. The underlying audit policies, procedures, and support requirements pertaining to such services are presented in 15-100.

1-302 General Rules for Establishing Cognizance and Accepting or Rejecting Non-DoD Requests

a. Federal agencies are required to establish audit cross-servicing arrangements when doing so is in the best interest of the Federal government and the organization being audited. Normally, the agency with the predominant financial interest should arrange for all audits at an organization. Department of Defense implementing guidance is provided by DoDD 7600.2, "Audit Policies." Thereunder, contract audit services may be provided to other Federal agencies upon request, with reimbursement at cost, as prescribed by the Under Secretary of Defense (Comptroller).

b. Cross-servicing arrangements have been made through memorandums of understanding (MOU) with various non-DoD agencies under the OMB criteria and DoD implementing guidance.

c. There are many Federal agencies with which DCAA has not established MOUs or had any contact concerning audit cognizance. Should DCAA auditors become aware of contract audit effort being performed by or on behalf of other Federal entities at contractor locations where DCAA is the cognizant contract audit agency, they should advise DCAA Headquarters, Attention: OWD, through their regional offices.

d. Any non-DoD agency request concerning a change in audit cognizance or related matters should be addressed to DCAA Headquarters, Attention: OWD.

e. DCAA is responsible for determining the scope of audit, including the manner and level of effort necessary to provide complete contract audit coverage at a contractor location. The Contract Audit Man-

ual will be the determining guide for the conduct of audits. Complete contract audit coverage may include examinations of internal controls and of contractor accounting and financial management systems considered necessary to satisfy government auditing standards, as incorporated in Comptroller General of the United States pamphlet "Government Auditing Standards," June 1994. When possible, auditors should be responsive to any additional coverage suggested by the requesting agency.

f. Audit working papers prepared during the course of audits for Federal agencies are the property of DCAA and will generally remain in the possession of the auditor. However, they will be made available for review by properly authorized procurement and other representatives of the Federal agencies for which the audit services were performed. If audit cognizance is transferred from DoD to another Federal agency, audit files may be released to the successor agency if (1) the files are no longer required by DCAA, (2) the files will benefit the agency in carrying out its audit responsibilities, and (3) there are no restrictions on the release of the files, e.g., SIC and classified. FAOs should keep a record of files transferred. Audit folders or other documents which are still required by DCAA may be copied by the successor agency provided they meet the above criteria. However, prior to the actual transfer of audit files, the instructions contained in DCAAM 5015.1 Chapter 4, paragraph B.3, must be followed.

g. Audit reports will be addressed in the manner prescribed in 10-206.

h. The auditor's responsibility for attending negotiation conferences requested by non-Defense procurement officials is essentially the same as that outlined in 15-400 for Defense procurement officials. The auditor will also be responsive to inquiries and personal visits from representatives of non-Defense agencies concerning the status and performance of requested audits. The objectives of such personal visits should be to seek information and to discuss mutual problems. They

are not to be used to supervise and/or evaluate the performance of the audit.

i. Responsibility for follow-up of DCAA audit recommendations and reviews of program results remain with the non-DoD agencies for which audit services are performed.

j. Field activities will prepare reimbursable billings in accordance with the requirements of the DMIS User Guide.

1-303 Processing Non-DoD Agency Requests for Audit Information or Services

a. DCAA will be responsive to requests received from government agencies outside the Department of Defense for information available in the audit files when the circumstances clearly show that the inquirer is entitled to the requested information. There is a presumption of entitlement if the requesting agency has a contract or is proposing to contract with the contractor and the information desired is related to the negotiation or administration of that contract. Requests for specific cost information which is readily available without audit effort will be accommodated without reimbursement. If the auditor has any doubt as to whether the requesting agency is entitled to the information, the auditor must obtain clearance from the contractor before releasing any specific cost or financial data, such as overhead rates. A request for cost or financial data, written material, or access to working papers or audit files by a non-Defense agency, except for the Internal Revenue Service, which pertains to a matter (except an investigation or litigation) unrelated to the negotiation or administration of a contract by the requesting agency, will be referred to Headquarters, Attention: PAS, for consideration. The referral will include all pertinent details, such as the names of the representatives involved, a summary of the information requested, purpose of the request, a summary of any discussions held with respect to the information desired, and any other pertinent observations. See 1-405 for guidance when requests by a non-Defense agency pertain to a matter involving an investigation or litigation; see 1-408 for

all requests by the Internal Revenue Service.

b. Cross-servicing agreements with non-DoD agencies provide for audit requests to be forwarded directly to the cognizant field office. Audit requests will be honored at locations where DCAA maintains a continuing audit interest under DoD contracts.

c. A request for audit services to be performed at a contractor location where DCAA does not have a continuing audit interest is considered a "casual audit request." A continuing DCAA audit interest exists at any location where DCAA has performed audit effort on a continuing basis over the past several years, whether the contracting agency is affiliated with DoD/NASA or not.

d. Except for those agencies identified in DCAAP 7230.1, Reimbursable Audit Program Manual, requests for audit services at locations where DCAA does not maintain a continuing audit interest will be referred to the Regional Audit Manager. Seasoned professional judgment and common sense must be applied to each casual audit request in making a decision as to whether or not to accept the audit engagement. The following criteria will be used to determine whether to accommodate or decline a request:

(1) Is the requested service compatible with normal DCAA responsibilities?

(2) Would acceptance or refusal to perform the work result in establishment of duplicative audit activity?

(3) Is another government agency performing audit work at the contractor location that could perform the requested audit?

(4) The extent and cost of DCAA TDY travel that would be required to honor a casual audit request should be a key factor. If honoring the request would require the incurrence of TDY travel time and costs, it may be just as efficient for the requesting agency to make other audit arrangements. In addition, if the requesting agency maintains a local audit organization, rejection may well be the appropriate response.

(5) It is important to consider the type of audit being requested and the contract audit capabilities of the requesting agency.

For example, if a price proposal examination is requested, we should consider the nature of the proposed services or products, the urgency of the procurement, and the ability of the requesting agency to arrange for adequate timely contract audit service.

A regional determination that a casual audit request should be accepted will be coordinated with Headquarters, Attention: OAL.

e. When requested to provide audit services that include auditing indirect cost rates, auditors should remember that 10 U.S.C. 2313(d), 41 U.S.C. 254d and FAR 15.404-2(c)(2) and 42.703-1(a) provide that contracting officers are required to determine whether a previously conducted audit of indirect costs meets the current audit objectives for indirect costs on executed contracts, subcontracts, or modifications and on a preaward basis. Federal Agencies are not to conduct duplicative audits for the same objectives. This means that, where DCAA has audit cognizance, other agencies should not perform audits of indirect costs which duplicate the DCAA audits and that DCAA should not perform audits of indirect costs which duplicate the audits of other Federal Agencies. In situations where auditors find potential duplicative requests for audits of indirect costs, auditors should exercise professional judgment in analyzing the requests, identifying pertinent facts, and communicating the facts to the requestor. Requests which can not be satisfactorily resolved should be reported to regional offices.

Requests which regions can not resolve should be reported to Headquarters, Attention: OAL.

f. When an auditor observes the presence of non-DoD contracts subject to audit coverage for which audit requests have not been received, they will be brought to the attention of appropriate non-DoD agency officials, to facilitate issuance of requests for audit.

g. Regional offices will notify Headquarters, Attention: OAL, of audit requests from non-DoD agencies not identified in the DMIS User Guide. Such requests must be processed promptly, since the requesting agency will need to make other arrangements if DCAA does not agree to accept the engagement. Typically, such work will be accepted if the audit effort falls within the normal scope of DCAA work and the requesting agency agrees to pay for the audit effort.

h. All audit requests should be promptly responded to in writing (see 4-103 for the content and format of the Acknowledgment letter). The response should state whether DCAA will accommodate or decline the request. If the request is declined, the reasons should be stated. If the request is accepted, the response should include the anticipated audit report date.

i. Based on prior agreements, DCAA will perform all contract audit work requested by NASA. DCAA has also agreed to perform contract audit work at all DOE prime contractor locations other than those designated as Management and Operating Prime Contractors.

1-400 Section 4 --- Relationships with Other Government Organizations**1-401 Introduction**

This section provides guidance and procedures governing relationships with other government organizations.

1-402 General

Other government personnel may communicate with DCAA personnel on official business. In all cases, the identity of the individual and his or her need to know should be established prior to furnishing any information either written or oral. Appropriate security precautions should be observed with respect to both classified military information and contractor information.

1-403 Relationships with DoD Procurement and Contract Administration Organizations**1-403.1 DCAA Responsibilities to Procurement and Contract Administration Organizations**

a. As the audit and financial advisor to procurement and contract administration activities, auditors must understand and support the service needs of these organizations. DCAA is committed to providing timely and responsive services and will maintain communications and liaison services sufficient to continuously assess if customer needs are being met.

b. Organizationally, DCAA is separate and independent from acquisition components of the DoD. Auditors are expected to exercise independent judgment in planning the type and extent of audit testing sufficient to render unqualified audit opinions, but will consider and address special areas of concern or informational needs of requestors. The auditor will also exercise independence in the formulation of audit opinions, recommendations, and conclusions contained in audit reports.

c. Government interests can best be served by maximum cooperation and exchange of useful information between audit and procurement personnel. DoD Directive 7600.2 requires that DCAA coordinate

annual contract audit plans with procurement and contract administration organizations. Effective liaison between the DCAA auditor and the contracting officer's representatives, and a clear understanding of the respective responsibilities of each in the overall procurement function, are essential. To ensure continuous close cooperation, DCAA should give procurement personnel timely notification of any significant changes in audit plans.

d. Regulations of the military departments and DLA require the contracting officers' representatives to use advisory audit services to the fullest extent practicable and to aid audit performance by furnishing the auditor with appropriate administrative and technical assistance. Appendix D-200 of this manual refers to the procedures whereby the auditor obtains technical assistance and guidance which may be required in the evaluation of a contractor's proposal. For those contractor locations where there is a significant and continuing volume of audit workload, e.g., audit residency or suboffice, the auditor should establish an effective working relationship with the major field contract administrators to keep each other informed on procurement and audit matters including forthcoming contractor proposals which will require audit services.

1-403.2 Procurement and Contract Administration Responsibilities to DCAA

Procurement and contract administration personnel have responsibility for the following:

a. Requesting contract audit service.

b. Providing sufficient time for the performance of the audit.

c. Furnishing to the auditor, in connection with a request for audit, copies of any contracts (including change orders, supplements, amendments, and termination notices), cost statements, proposals, and other financial data submitted by contractors or, as appropriate, requested by the auditor.

d. Establishing access to contractor records required by auditors.

e. Furnishing such other information, data, or service as may be required (such as technical evaluation of the need for the quantity and type of labor and material proposed in contract pricing actions) or otherwise may be useful in performing the audit.

1-403.3 Major Audit Issues

DCAA Form 1s as well as audit report recommendations may lead to disagreements between the auditor and the contracting officer. There must be continual and timely communication between the parties to promote understanding and improve the potential for satisfactory resolution of the issue before final contracting officer action. Oral communications involving major audit issues should be followed up in writing to avoid misunderstandings.

1-403.4 DCAA Participation on Contract Management Boards of Review

a. Nature of Review Boards

Review Boards are established to examine proposed contract actions for all contract administration functions on an ad hoc basis. For example, review boards may be established to evaluate the reasonableness of proposed settlements or determinations concerning contractor purchasing system reviews (CPSR), contract terminations, and Cost Accounting Standards issues. The District Commander is responsible for the establishment of review boards for each Defense Contract Management Agency (DCMA). In addition, the District Commander may establish subordinate Boards of Review at individual Contract Administration Offices (CAOs).

b. Restrictions on Auditor Participation

Auditor participation in review board activities has proven beneficial in many instances. Such participation is normally performed as a non-voting advisory service. Continued efforts of this type are encouraged subject to the following restrictions.

(1) DCAA personnel shall not participate as members of review boards when

they are engaged in matters related to the resolution of audit report recommendations. DCAA participation on the board in such cases might discourage the board from requesting assistance from field personnel most capable of answering questions pertaining to a specific audit recommendation.

(2) No DCAA auditor will serve as a member of a board while it is reviewing a contract action with which he or she was previously associated as a contract auditor, supervisor, or participant in negotiation conferences. Where this situation occurs, another auditor should be appointed.

c. Processing Requests for Participation

(1) Requests may be received by Headquarters, regional offices, or field audit offices to furnish audit personnel to participate on review boards. The Assistant Director, Operations, is responsible for action on requests for board participation by Headquarters personnel. The cognizant regional director is responsible for action on requests for board participation by regional office and FAO personnel.

(2) Upon receiving a request to furnish audit personnel to participate on review boards, first obtain information concerning the functions of the board, the estimated periods of participation of DCAA personnel, the estimated amount of time required on a weekly or monthly basis, and the benefit to the government of DCAA participation. Requests received by FAOs will then be promptly forwarded to the regional office with the name of the auditor recommended for membership.

(3) Tactfully decline any request for participation which would frequently require auditor abstentions or substitutions to avoid a restriction in b. above. Where any other request cannot be complied with by the region, contact the Assistant Director, Operations, before notifying the requesting office.

(4) When a request for participation is accepted, the DCAA response will set forth the arrangements for and restrictions, if any, on auditor participation.

1-403.5 Signing Certificates of Non-Disclosure and Statements of Financial Interest

a. Source Selection Authorities (SSA) from various Service program offices may ask FAO auditors to sign Certificates of Non-Disclosure and Statements of Financial Interest. These certificates usually contain language such as "I understand my obligation not to divulge information received in confidence from contractors in connection with their bids, proposals, trade secrets, inventions, discoveries, or reports of a financial, technical, or scientific nature." These certificates may also include debriefing certificates which contain language such as "I no longer have any material pertinent to this source selection in my possession except material that I have been authorized in writing to retain by the SSA." To preclude any misunderstanding as to ownership or content of audit working papers, FAO auditors should not sign certificates containing language which addresses retention of contractor information or data. Procurement Liaison Auditors and Financial Advisors can continue to sign these certificates since these individuals generally do not generate audit working papers.

b. FAR does not have a provision requiring the buying commands to have

certificates signed by all personnel having access to source selection information. Agency supplements may require these signed certificates. FAO auditors are not subject to the provisions of these agency supplements; however, they are subject to the provisions of FAR 3.104, Procurement Integrity. In particular, FAR 3.104-4(a) states that "A person ... shall not, other than as provided by law, knowingly disclose contractor bid or proposal information or source selection information before the award of a Federal agency procurement contract to which the information relates."

c. DCAA maintains Executive Branch Confidential Disclosure Reports (OGE Form 450) for all auditors classified at GS/GM-13 through GS/GM-15. The auditor may, but is not required, to notify the program office regarding his or her completion of this form.

d. In an effort to be responsive to our customers' needs, we have developed a proforma "DCAA Certificate of Non-Disclosure Statement" (see Figure 1-4-1) for FAO auditors to provide to the requesting officials. This certificate should be signed by the appropriate FAO personnel and provided to the agency source selection official in lieu of the form provided by the buying command.

Figure 1-4-1
Certificate of Non-Disclosure Statement

I acknowledge that [*insert name of program office*] has provided me with contractor proprietary and source selection information to enable me to perform my official duties.

As required by FAR 3.104, I agree not to divulge, publish, or reveal by word, conduct, or any other means, any such information to any other person, except in accordance with applicable law and regulations.

I also understand that I must exercise appropriate care to safeguard such information against unauthorized disclosure, and I will promptly report any mishandling, loss or unauthorized disclosure of contractor proprietary information of which I am aware to my supervisor, the Source Selection Authority (SSA), and/or the [*insert program name*] Security Director.

I understand that information marked "Competition Sensitive" must be handled as contractor proprietary or government non-public information, as applicable.

I understand that failure to comply with this policy may result in penalties.

If an actual or potential conflict of interest (as described in Title 5, Code of Federal Regulations (CFR), Part 2635, "Standards of Ethical Conduct for Employees of the Executive Branch," and implementing Department of Defense regulations) arises in connection with my access to, or use of, any contractor proprietary information provided to me by the [*insert name of program office*]. I will promptly report such actual or potential conflict of interest to my supervisor.

[Signature of FAO Auditor]

Name of FAO Auditor
Title of FAO Auditor
FAO Name
FAO Address
FAO Telephone No.

1-404 Relationship with DoDIG, NASA IG and Other Executive Branch Internal Audit Organizations**1-404.1 Organizations for Government Internal Audit**

a. The DoD Inspector General is responsible for DoD level internal and oversight audits and investigations. Responsibilities of the DoDIG include (1) evaluating activities relating to contract audits; (2) investigating fraud, waste, and error; (3) monitoring adherence to contract audit principles, policies, and procedures; and (4) monitoring actions taken by DoD components in response to contract audits.

b. Internal audit, oversight, and investigative services are performed by the offices of the Assistant DoDIGs for Auditing and Investigations and the Director for Departmental Inquiries. DoD component internal audit organizations include the Army Audit Agency, the Naval Audit Service, and the Air Force Audit Agency. Most non-DoD agencies have similar activities for the performance of internal audit within their organizations. The following guidance also applies to non-DoD executive agencies.

c. The various Military Services also have internal audit groups that perform internal audits for their respective DoD component.

1-404.2 DCAA Assistance to Government Internal Audit Organizations

a. When internal audits require verification of contractor data or records at contractors' plants, the internal audit organization normally will obtain fact-finding assistance from DCAA.

b. Support will be furnished to the internal auditor where doing so does not conflict with the contract auditor's basic role of providing advisory services to contracting officers. Requests requiring contract auditors to evaluate contracting officers' performance are inappropriate, whereas assistance concerning contractors' performance is appropriate.

c. Contract audit working papers, reports, and files will be made available to internal auditors in their audits of procure-

ment, contract administration, or related functions provided DCAA has received written notice of the objective and the scope of the internal audit evaluation. The DoDIG's right of access to DCAA records is set forth in DCAA Instruction No. 7050.1.

d. If the data or information required by the internal auditor is not available in contract audit files, DCAA may be requested to provide assistance. These requests will be honored when feasible and mutually agreeable. Written confirmation of the request for audit assistance will be furnished to the internal auditor within seven working days of receipt. When DCAA is unable to render requested assistance, the DoD audit representatives will make arrangements to perform the necessary audit work themselves.

e. Government internal auditors will not be precluded from auditing contractors' books and records when DCAA acknowledges that it cannot provide the assistance required because (1) it concerns matters beyond the proper role of DCAA, (2) it would impede the prompt execution of DCAA's primary role of furnishing accounting and financial management advisory services regarding contracts and sub-contracts to government components, or (3) it would result in undue delays or inefficiencies in the accomplishment of internal audit objectives. DoD internal auditors are required by DoD audit policy to coordinate all audits involving contractor records with DCAA and the appropriate contract administration office to avoid duplication of audit work.

f. NASA IG.

(1) The NASA IG, like other IGs, has the authority to perform contract audits. However, to avoid audit duplication, audit and acquisition policies call for the IG to coordinate its contract audit needs/efforts at locations where another federal audit organization such as DCAA is the cognizant contract audit organization. In rare circumstances, the IG might perform its own contract audit work even when it overlaps DCAA's work. The circumstances and risk warranting such action should be clearly documented between the NASA IG and DCAA in all cases. FAOs should coordinate all such cases, through their re-

gion, with DCAA Headquarters, Attn: PQA.

(2) In coordinating:

- The NASA IG will normally copy PQA on audit notices that involve contact with contractors on matters relating to contract audit. PQA, in turn, will inform the cognizant field audit elements and facilitate their cooperation in the audit. PQA will also serve as the Agency's contact point for bringing matters of apparent audit duplication to the attention of the IG.
- DCAA and the IG will share audit programs and working papers.

(3) If the NASA IG wants additional contract work performed beyond what DCAA originally determined necessary to attain reasonable audit assurance, the NASA IG may team with or request DCAA to perform this work. Audit efficiency should guide the approach taken. The NASA IG efforts should not involve an evaluation of the quality of DCAA's work, as this would be a duplication of the DoDIG's responsibilities.

g. Supplement 1-4S1 presents illustrative audit situations involving interface between contract and internal audit.

1-404.3 Government Internal Audit Organization Assistance to DCAA

In certain instances, contract audits involve work at a defense installation or remote location where the nature of the work, proximity of an internal audit office, or other factors make it more practical or economical for the contract auditor to obtain assistance from an internal auditor. Such cross-service audit assistance shall be referred to DCAA Headquarters, ATTN: PQA, for a determination before the request is issued.

1-404.4 Interfacing with Government Internal Audit Organizations

a. This section deals with requests for assistance from government internal audit organizations. Oversight reviews are discussed in 1-404.5.

b. Requests from government internal audit organizations are normally coordinated through DCAA Headquarters, PQA,

which will notify the cognizant Headquarters division. That division in turn will notify the affected Regional Quality Assurance Division (or other designated regional office element) and field offices. Regional and field offices may receive requests for audit assistance directly from the internal audit organization without prior Headquarters coordination. When such requests are limited in nature, e.g., factual information at a specific location, Headquarters need not be notified. However, all other requests should be referred to Headquarters, PQA, before any action is taken.

c. During the course of visits or telephone contacts by a government internal audit organization the FAO manager should answer questions raised and tactfully clarify or correct any misinterpretation of factual information. Discussions with representatives of the government internal audit organization should be limited to factual matters related to specific DCAA audits and/or the management of those audits. Matters regarding overall Agency policy, operations, or resources which are not covered in published Agency guidance should be referred to Headquarters, Attention: PQA.

d. The FAO manager should promptly report to the Regional Quality Assurance Division (or other designated regional office element) the results of any government internal audit organization's visit or telephone contact. If DCAA's response has been limited to providing access to or copies of pre-existing material, the FAO manager's report need only identify the general nature of the materials provided. If DCAA has been asked to prepare additional materials for the government internal auditor's use, the FAO should comply with the region's instructions regarding appropriateness of higher-level audit.

1-404.5 Oversight Reviews

a. Oversight reviews are coordinated through DCAA Headquarters, PQA, which will notify the Headquarters division cognizant of the review's subject area. Before providing access to an oversight reviewer, determine that the review has been properly coordinated in accordance with DCAAI 7050.2. Oversight organizations,

particularly the DoDIG, may request answers to questions arising from their visits to DCAA field elements.

b. Provide written notice to the Regional Quality Assurance Division (or other designated regional office element) and headquarters, ATTN: PQA, of all DoD oversight visits to FAOs or contractor sites.

c. As required by DCAAI 7050.2, a reviewed FAO will provide a written memorandum of significant issues to the Regional Quality Assurance Division (or other designated regional office element) within ten working days of an oversight visit. The information in the memorandum should be limited to factual data relating to the oversight reviewer's observations on the specific audits reviewed. Matters relating to overall Agency policy, operations or resources should be separately referred to Headquarters, Attention: PQA and should not be commented on in the memorandum. The region will forward the FAO's memorandum to Headquarters, PQA, within five additional working days.

d. When interim DCAA responses to field visits are required, regions are responsible for receiving draft responses from FAOs; preparing responses; and forwarding responses directly to the oversight organization, with a concurrent copy to Headquarters. Technical guidance and overall coordination will be available from Headquarters as required. Procedures for responding to oversight reviews are contained in DCAAI 7050.2.

1-404.6 Issuance of Audit Reports

When an audit performed at the request of an internal audit organization requires corrective action by the contractor involving such matters as unallowable costs and cost avoidance, the auditor will follow the normal practice and issue the audit report to the cognizant ACO to assure timely corrective action. A copy of the report will also be forwarded to the requesting internal audit organization by a transmittal letter indicating that the audit report has been issued directly to the ACO. When an audit performed at the request of an internal audit organization does not require corrective action by the contractor, the audit re-

port will be issued to the internal audit organization (see 10-206).

1-404.7 Relationship with the DoDIG and Military Inspectors General

When an Inspector General of a DoD component, or an IG representative, visits an audit office, the auditor should, after satisfying himself/herself as to the identity of the individual, cooperate fully in responding to inquiries pertaining to the audit of contracts under the auditor's cognizance. Requests for sensitive information, or requests which require the assignment of an auditor for a substantial period of time, should be in writing. The auditor should report such visits to the Regional Quality Assurance Division (or other designated regional office element) and furnish copies of an exchange of correspondence and memorandums. Before furnishing any sensitive information, the auditor should coordinate the matter with the regional director. Unusual or significant inquiries should be reported to Headquarters, Attention: PQA.

1-405 Relationship With Investigative Agencies of the Government

a. Auditors will cooperate with representatives of the Federal Bureau of Investigation, DoD criminal investigators, and criminal investigators from other agencies. (See 4-702.6 and DCAA Regulation 7640.15.) Written material and access to files or working papers will be made readily available to such investigators. The contractor need not be informed when such information is provided to investigators. Original documents may be provided to investigators if a subpoena is issued for the documents. If investigators insist upon obtaining original documents in other situations, promptly refer the matter to Headquarters, Attention: OAL. In either case, original documents cannot be released until copies have been prepared for retention by DCAA. Document all meetings with members of governmental investigative agencies in the audit working papers or the DCAA Form 2000 files as appropriate in the circumstances. Guidance pertaining to the protection of

information related to investigations is provided in 4-702.5d., e., f., and g.

b. Except as otherwise provided in this section (1-400 et seq.), inform Headquarters, Attention: OAL, of any requests for written material or access to files and working papers made by representatives of other agencies (e.g., civil investigators from the DOL, EEOC, etc.). Ask that the request be put in writing, and that it include the names of the investigators, a summary of the information requested, and purpose of release. Obtain the approval of Headquarters before complying with such requests. The FAO manager may grant representatives of a civilian agency access to audit files pertaining to that agency's contracts regardless of whether the request is made in conjunction with an investigation; however, Headquarters should be notified of the visit. If the request arises under a joint investigation with an agency with access rights and the request is made by the privileged agency, Headquarters need not be notified.

c. Occasionally an investigator will interview an auditor in connection with an inquiry of contractor activities. The auditor should request to review the investigator's write-up of the interview before its release, to ensure statements have been accurately recorded. Report investigative interviews of an unusual or important nature to Headquarters, Attention: OAL. Identify the investigative agency, name of investigator(s), summary of the questions asked, and other pertinent information. It is not necessary to report routine investigative contacts by DoD investigators.

1-406 Relationship with Government Legal Counsel in Contract Disputes, Bid Protests, and Other Matters

a. It is Agency policy to assist government counsel in auditing matters in all contract disputes, bid protests, and other matters, whether initiated through an Agency finding or by other means when requested to do so by counsel. Audit support should fully respond to the needs of counsel and may consist of comprehensive audit and accounting advisory services; accounting research applicable to the specific case, including testimony

relative to the audit report; or testimony as an expert on accounting and auditing practices and procedures. All work done at the request of the government trial attorney is subject to the attorney work product privilege. As such, while DCAA may maintain custody of any documents developed while providing support to the trial attorney, control over the documents rests with the trial attorney or his/her successor. This policy is in keeping with the Agency's assigned responsibility to provide accounting and financial advisory services to all DoD procurement and contract administration activities in negotiating, administering, and settling contracts.

b. Although control of the documents rests with the trial attorney, the DCAA auditor is responsible for their content (see 15-500, which also applies to cases before the Claims Court). Should the trial attorney attempt to obtain audit working papers prior to release of the report, the cognizant FAO should (1) offer to provide copies of any relevant documents and (2) attempt to persuade the trial attorney that the audit process is incomplete until required supervisory reviews are completed. Review of incomplete audit files may lead the attorney to draw erroneous inferences regarding the DCAA audit position. Should the trial attorney persist, Headquarters, PAS should be notified before incomplete audit files are released.

1-406.1 Armed Services Board of Contract Appeals (ASBCA)

a. Details of the ASBCA Charter are found in Appendix A to the DoD FAR Supplement. The ASBCA is the authorized representative of the Secretaries of Defense, Army, Navy, and Air Force in hearing, considering, and determining appeals by contractors from decisions of contracting officers or their authorized representatives or other authorities on disputed questions. These appeals may be taken pursuant to:

(1) the Contract Disputes Act of 1978,

(2) the provision of contracts requiring the decision by the Secretary of Defense or by a Secretary of a Military Department

or their duly authorized representative or board, or

(3) the provisions of any directive whereby the Secretary of Defense or the Secretary of a Military Department has granted a right of appeal not contained in the contract on any matter consistent with the contract appeals procedure.

b. Rules on submitting contractor appeals and preparing for and conducting a hearing are in Part 2 of Appendix A to the DoD FAR Supplement. These rules may vary from a case requiring the submission of a substantial amount of evidence, the presentation of witnesses, and a prehearing and formal hearing to a situation in which the hearing is waived and the case settled on the basis of the submitted record. The rules also provide for decisions of appeals involving \$10,000 or less, under an optional small claims (expedited) procedure or for appeals where the amount in dispute is \$50,000 or less, under an optional accelerated procedure.

c. The auditor will be mainly concerned with ASBCA procedures which require the contracting officer and government trial attorney to submit a file of applicable documents and to produce documents, admit facts, and answer questions when properly requested by the other party to do so. Further details on audit procedures and responsibilities in connection with ASBCA cases are in 15-500.

1-406.2 Other Boards

In addition to the ASBCA, there are boards that service various other agencies and departments of the government. On occasion, the DCAA auditor may be called on to assist in hearings before these boards. While the size of the board and the rules may vary, the type and degree of services an auditor must provide will generally be the same.

1-406.3 Bid Protests

a. An unsuccessful bidder or offeror for a government contract may file a bid protest with GAO. The GAO bid protest regulations, found at 4 CFR Part 21, allow for hearings on protests. Occasion-

ally, audit issues will arise during the course of a protest. When this occurs, auditors shall cooperate with counsel representing the government by making records and working paper files readily available. Additionally, circumstances may occur which require the auditor to testify in such proceedings. Such testimony is permitted when requested by counsel representing the government. If such testimony is requested by any other party, the provisions of DCAAR 5410.11 apply.

b. If the acquisition involves ADPE hardware, services or maintenance, a protest may be filed with the GSBICA or the GAO. If the protest is filed with the GSBICA, that board's rules for resolving contract disputes cases apply to bid protests as well. In such cases, the auditor will follow the guidance contained in 1-406.2.

1-407 Relationship with Component Remedies Coordinators

The head of each DoD component must establish a remedies coordinator in order to meet DoD Directive 7050.5 (Coordination of Remedies for Fraud and Corruption Related to Procurement Activities) requirements. The remedies coordinator will be responsible for establishing procedures to develop a specific remedies plan for each significant investigation involving fraud or corruption relating to procurement activities. Under this remedies plan, appropriate DoD officials would consider all appropriate civil, administrative, and contractual remedies available to the Department of Defense, including suspension or debarment. Agency policy is to assist component remedies coordinators in developing effective remedies plans. The plan should be consistent with our mission of providing accounting and financial advice to DoD officials regarding negotiation, administration, and settlement of contracts. Further, FAO's will consider obligations imposed on a contractor by a remedies plan during the planning process. For an example, see 4-711 (Reviewing contractor compliance with administrative suspension and debarment agreements).

1-408 Relationship with the Internal Revenue Service (IRS)

a. Procurement-related requests from the IRS (Department of the Treasury) should be handled in accordance with 1-303, following 15-1S7 for distribution of any resulting report. The procedures contained in 1-404 should be followed regarding contacts by the IRS internal audit staff.

b. Field audit offices may receive direct requests from the IRS for records and files related to an IRS investigation or tax matters. The field audit office should coordinate IRS requests for investigative or tax information with the regional office, before providing any information of this type to the IRS. With regional approval, information related to an IRS fraud or criminal investigation, or in connection with a docketed case before the U.S. Tax Court, should be released directly to the IRS. The field audit office should request the IRS to provide information showing that the requested information relates to these situations.

c. For requests related to civil investigation or administrative inquiry, the field audit office is only authorized to release information that would normally be releasable to the general public under the Freedom of Information Act (for example, publications and most MRDs). If the requested documents would not normally be releasable by DCAA to the general public (for example, audit reports or contractor proprietary information), the region should forward the request to Headquarters, ATTN: DL, for a release determination. The region should provide Headquarters with a summary of the information requested, purpose of release, and other pertinent information.

1-409 Relationship with Members of Congress and Congressional Committees

a. DCAA personnel will cooperate with members of Congress and congressional committees by responding fully and promptly to their official requests for information on this Agency's programs and operations. All written responses and/or

copies of DCAA documents will be provided directly by the appropriate Headquarters element. Detailed guidance relative to (1) inquiries from members of Congress, (2) visits by congressional committees, (3) preparation of material for testimony or use before congressional committees, and (4) comments on legislation and legislative matters is set forth in DCAA Regulations Nos. 5020.3 and 5030.16.

b. The Headquarters Auditing Standards Division (PAS) should be notified immediately of any inquiry from members of Congress, congressional committees, or their staffs.

c. The Headquarters Auditing Standards Division (PAS) should also be notified of any customer (Government agency) requests for assistance in responding to an inquiry from members of Congress, congressional committees, or their staffs. In these situations:

(1) DCAA audit reports and related materials prepared at the customer's request or otherwise in the customer's possession are releasable to Congress at the customer's discretion. If possible, the customer should be encouraged to include the following statement with the materials:

"Please be advised that the contractor financial and accounting system information contained in the attached [report, memo, presentation] is considered proprietary by the company and should not be released to the public. The information made available to you in this [report, memo, presentation] contains financial data furnished to the government in confidence. Such information must be protected from unauthorized disclosure under 18 U.S.C. 1905. For this reason, the attachment has been marked FOR OFFICIAL USE ONLY."

(2) Should the customer request that DCAA update existing materials or prepare additional materials to support the customer's response to Congress, the FAO should provide the new or updated material to Headquarters, attention PAS, for review by the cognizant Headquarters division prior to releasing it to the customer.

1-409.1 Written Requests for Information

a. Written requests for information received from Congressional members or their staffs should be forwarded to Headquarters, ATTN: PAS, as expeditiously as possible. When requested by Headquarters, field and regional elements will provide, through the regional director, the following information to the responsible Headquarters staff element not later than the date established by the head of the staff element:

- (1) the congressional inquiry,
- (2) a copy of any interim acknowledgment,
- (3) a copy of the requested audit report(s), if applicable,
- (4) a proposed final reply to the inquiry, and
- (5) the information upon which the proposed final reply is based.

When proposing to furnish contractor proprietary information (e.g., documents marked For Official Use Only (FOUO) or documents that the FAO/region believes contain contractor proprietary data), include the following statement in the proposed final reply:

"Please be advised that the contractor financial and accounting system information contained in this [letter / report / enclosure] is considered proprietary by the company and should not be released to the public. The information made available to you in this [letter / report / enclosure] contains financial data furnished to the government in confidence. Such information must be protected from unauthorized disclosure under 18 U.S.C. 1905. For this reason, the [letter / report / enclosure] has been marked FOR OFFICIAL USE ONLY."

b. When a proposed final reply cannot be forwarded to the responsible staff element within the established due date, the regional director will forward

a brief memorandum stating the anticipated date that the reply and information will be provided. (See DCAAR No. 5030.16 for detailed processing requirements.)

1-409.2 Meetings with and Visits by Congressional Committees

a. Field and regional elements will immediately notify Headquarters, PAS (through the regional director) of written or oral requests received from Congressional committees or their staff to visit a DCAA office.

b. In accordance with DCAAR No. 5030.16, regional and field personnel will permit committee members or their staff to examine records which pertain to areas of interest to the committee. Regional directors will refer any committee requests to remove or retain records (including audit reports and working papers) to Headquarters, PAS. Headquarters, PAS will coordinate receipt and transmission of requested files to the committee's offices in Washington, D.C. Requests for any other information to be provided to committee representatives will be forwarded to Headquarters, PAS, within 10 working days following the visit. In any case, no information should be released until authorized by PAS.

c. Field and regional elements will forward a memorandum (through the regional director) summarizing visits by Congressional representatives within five working days following the visit. The memorandum should specifically enumerate the subjects discussed during the visit, any requests for data, and questions and answers still to be provided. If a request has been made for audit reports or working papers, the memorandum should also include an assessment of the requested materials' compliance with Agency policy. If the assessment discloses any deficiencies in the reports or working papers, additional comments should be included to clearly establish the steps taken to correct the deficiency.

1-4S1 Supplement --- Illustrative Audit Situations Involving Interface Between Contract and Internal Audit Organizations**1. Audit of Japanese master labor contract.**

The Defense Contract Audit Agency has responsibility for audit of contractual payments. Many of the functions relating to the contract such as the need for, utilization, classification, and control of contract employees; establishing pay and allowances in conformance with the terms of the contract; and submission of payroll data are the responsibility of Army, Navy, and Air Force activities. Internal audit normally would encompass evaluation of these functions. Contract auditors may need internal audit assistance in confirming the accuracy and reliability of reports from military activities which form the basis of contract reimbursements.

2. Audit of small cost-type contracts at remote defense installations.

Travel and per-diem costs may be saved by DCAA obtaining internal audit assistance on audit of relatively small contracts performed at remote defense installations where internal auditors are in residence or in the vicinity. Factors to consider are the location, complexity of the contract audit work, and the availability of internal auditors. An example is a small construction contract at Goose Air Base in Labrador. Audit by DCAA would require travel from New York. Audit can be performed by internal auditors in residence.

3. Audit of administration of government property furnished to contractors.

Prime responsibility for audit of the administration of government property, including that furnished to contractors, is a part of the internal audit mission. However, DCAA likewise performs property auditing in its role of advisor to the property administrator and contracting office, as well as in connection with cost determination. When an internal audit of the government property administration function requires verification of detailed records maintained by a contractor, assistance ordinarily can be obtained from the cognizant contract auditor. However, if necessary to performance of the internal

audit mission, internal auditors will be afforded access to contractor-maintained records.

4. Audit at government-owned, contractor-operated plants.

At GOCO plants DCAA is responsible for audit of the cost-reimbursement operating contracts. Internal auditors are responsible for auditing operations of the Contracting Officer. DCAA should assist the internal auditors by providing such cost and financial information from contractor records as is essential to permit evaluation of the management of the facility.

5. Audit at military installations where services and/or maintenance are purchased under contracts subject to DCAA audit.

Circumstances may be such that the internal auditors need fact-finding assistance from contract auditors to obtain or verify information from contractors' records. For example, the internal auditor may be reviewing the potential for savings from elimination of duplicating supply operations and information is needed from the contract auditor regarding the contractor's supply system.

6. Audit of a weapon system where supply, maintenance, funding, and other functions are closely integrated with input from or operations of major contractors.

Internal audits of this nature give rise to various situations where audit information is needed from contractors' books and records. Assistance from contract auditors would be appropriate in some cases and not in others. Examples follow:

a. Internal auditors are reviewing a contract pricing action. Contract audit assistance ordinarily should not be requested since the contract auditor participated in the procurement team effort.

b. Internal auditors determine that substantial quantities of end items which have been inspected and accepted are found subsequently to have defects requiring major modification. In trying to ascertain the cause for this situation, the auditors find it necessary to determine whether the

contractor has responded timely to contract change orders requiring modification during production. Contract audit assistance in conjunction with technical assistance would be appropriate as determinations of this nature are an integral part of operations audits of contractors' production scheduling and control systems. These determinations are also made during reviews of contractors' internal planning and control systems when performing Earned Value Management System Criteria reviews.

c. An internal auditor is reviewing the computation of requirements which involve data on assets in the hands of the contractor and reports thereon. Contract audit assistance would be appropriate to verify data furnished by the contractor.

d. An internal auditor is reviewing funding status and validity of obligations

which involve data and reports from contractors. Contract audit assistance would be appropriate to verify data furnished by contractors.

7. Audit at contractor location where DCAA is the cognizant contract audit organization

Government internal auditors may need fact-finding assistance from contract auditors to confirm, obtain or verify information from contractors' records. For example, the internal auditors may be performing an audit to identify potential conflicts of interest on the part of consultants working both for the government and its contractors. Appropriate DCAA assistance to the internal auditors might consist of providing information from audit files on evidence of services rendered.

1-500 Section 5 --- Relationship with Contractors

1-501 Introduction

Requirements for specific audit conferences with contractors are stated in 4-300. This section covers other aspects of the relationships between DCAA and contractors.

1-502 Establishment of DCAA Field Audit Offices (FAOs) and Suboffices

1-502.1 General

The DCAA Organization Manual, Chapter 9, contains the procedures for activation and deactivation of DCAA FAOs. The activation or deactivation of DCAA FAOs (excluding suboffices) is subject to approval by the Director, DCAA, upon the recommendation of the cognizant regional director. The regional director may establish or discontinue suboffices. Regional directors should periodically review the operations of existing FAOs to determine if they still meet the criteria referred to in the manual or whether, due to changed conditions, any of these offices should be discontinued. Conversely, consideration should be given to establishing FAOs at those locations where the workload so warrants. If any such changes are indicated, submit recommendations to Headquarters, ATTN: OWD (with concurrent copy direct to CP), containing the information required by the manual.

1-502.2 Establishment of Branch Offices

a. A branch office is defined as a DCAA field audit office which (1) performs mobile audit work at all contractors within its designated geographic areas which are not audited by a DCAA resident office and/or (2) performs resident audits of several unrelated contractors through suboffices. Branch offices are established at appropriate locations within DCAA regions for these purposes.

b. A branch office may be located in a contractor facility only if there is unrestricted access to the DCAA office by other (nonhost) contractor representatives and adequate security is provided for data of

such other contractors. Regional directors are responsible for establishing the most efficient and economical arrangements for specific locations within these restrictions. If a branch office is located in a contractor facility, the name of the branch office will not include the contractor's name, and the mail system will be arranged so that DCAA mail does not go to or through the host contractor's system.

c. A branch office may have one or more suboffices. A suboffice is defined as a subordinate element of an FAO. A suboffice may be established (1) at a geographic point distant from the main branch office location if a concentrated workload of mobile audits exists in the area which can be performed more economically by stationing one or a few auditors permanently at that distant point, (2) at a particular contractor location which has a continuous workload requiring the full-time assignment of a few auditors, or (3) at a location where a significant combination of the two preceding conditions exists. A suboffice with both mobile and resident workload must meet the criteria of b above, unless the exception in 1-502.3b applies.

1-502.3 Establishment of Resident Offices

a. A resident office is defined as a DCAA field audit office located at a contractor's facility for the purpose of performing the contract audit workload at the contractor. The office may be made up of suboffices located at components of the same company and still meet the resident office definition.

b. On a case-by-case basis with prior Headquarters approval, limited amounts of mobile work may be assigned to resident offices without changing the office designation. This exception applies only to situations where it is uneconomical or impractical to assign the mobile work to a branch office.

c. Resident offices are usually established at principal locations of major defense contractors. The main criteria for establishing a resident office are whether the audit workload at the contractor is of a

continuing nature and is sufficient in significance, complexity, and volume to warrant a full-time staff large enough to require a resident audit manager and clerical staff.

d. A resident office has the important advantage of enabling auditors assigned to the contractor location on a continuing basis to develop a comprehensive understanding of the contractor's operations and basic management policies and practices in relation to government contracting. This understanding enables more efficient audits of major contractors and more timely and effective audit advice on these contractors to procurement and contract administration activities.

1-502.4 Change of FAO Cognizance

a. Occasionally, FAO cognizance of a contractor organization will change because of such contractor actions as relocations, reorganizations, or consolidations. FAO cognizance of a contractor may also need to be reassigned as a result of DCAA's actions such as establishing new FAOs, consolidating FAOs, or deactivating FAOs. When audit responsibilities of a contractor need to be transferred, the branch or resident office having audit cognizance prior to the change is required to coordinate with the gaining office to assure that continuity of audit services is maintained.

b. Actions to be taken by the losing FAO include:

(1) Issue notification to the major procurement and contract administration activities that do business with the contractor; providing the name, address, and telephone and facsimile numbers of the FAO gaining cognizance of the contractor.

(2) Provide the gaining FAO with a listing of all auditable contracts. The listing should include the name of the procurement office, contract number, type, amount of award, cognizant ACO and identify those contracts that provide for DCAA provisional approval of public vouchers.

(3) Transfer permanent files information, with a transmittal memorandum that lists the content of the files. A copy of the transmittal memorandum should be sent separate of the files and retained in the

permanent files of both the gaining and losing FAO.

(4) Provide a copy of all requirements and program plan data relating to the contractor for the current and prior years.

(5) Prepare a summary of all unresolved issues and forward it to the gaining FAO. This summary should include the current status of these issues. Wherever possible, resolution of the issues should be accomplished prior to transferring cognizance to the gaining FAO.

(6) Notify the CAC/GAC of the change in audit cognizance and provide information concerning status of audit issues affecting the CAC/GAC network.

(7) Provide a listing of files maintained at the Federal Records Center to the gaining FAO.

(8) Issue a change of address notification to the Federal Records Center for any audit files that are in records retention. The change of address should be forwarded through the regional resources office, ATTN: Records Management Officer (See DCAAM 5015.1).

(9) Provide the regional resources manager, with a concurrent copy to Headquarters, ATTN: CP and OWD, a brief explanation of all contractor data maintained in the DMIS that will need to be transferred to the gaining FAO and the effective date of the transfer. When possible, provide this information at least 60 days in advance of the anticipated change.

(10) Transfer any data relating to the contractor that is included in regional or headquarters periodic reports to the gaining FAO, complete with any computer-based files (e.g., incurred cost status report database). Concurrent notification of the change in FAO cognizance should be made to the responsible regional office element.

1-503 Notification of Visits to Contractor Facilities

1-503.1 Security Requirements and Procedures

a. Section 3-101d of the DoD Industrial Security Regulation (DoD 5220.22R) and paragraph 37 of the DoD Industrial Security Manual for Safeguarding Classified Information (DoD 5220.22M) require that

the contractor be given advance notice in writing when access to classified information held by the contractor is involved. The manual requires such notification to include:

- The name and title of person(s) to be visited.
- The name, title, date and place of birth, citizenship, and security clearance status of the DCAA representative(s).
- The purpose of and justification for the visit, including identification of related program(s) or contract(s) and classified information to which access is required, if known.
- The date of the proposed visit or period during which the notice is to be valid.

It is DCAA policy to also include the following information:

- DCAA identification number (auditor credential card number or equivalent).
- Visitor Category (the Industrial Security Manual designates category 1 for U.S. government employees).

b. When a visit will require access to classified matter held by the contractor and/or access to a secured contractor plant, DCAA Form 5220-1 will be used to notify contractors of planned visits. This form will also be used for DCAA personnel permanently located at contractor facilities (such as those assigned to resident offices and suboffices) and for those visiting contractors on a regular basis (such as regional audit managers and members of regional audit teams). Notification in these cases will normally consist of blanket notices submitted on an annual basis. A copy of each notification sent to the contractor will be forwarded to the cognizant contract administration office.

c. DCAA personnel will inform their security officer of planned visits to contractor facilities in sufficient time to enable timely notification.

1-503.2 Required Notification to Contract Administration Offices and Courtesy Notice to Contractors

a. Whether or not access to classified matter or secured area(s) is required, to preclude duplicate demands on the contractor, prospective visitors to contractor facilities are to provide information concerning

the visit to the cognizant Contract Administration Office (CAO) sufficiently in advance and in adequate detail so as to permit the CAO to advise the visitors in the event information related to the contract administration functions currently exists that may satisfy the stated purpose of the visit (FAR 42.101(a) and 42.402(a) and (b)). The visitor will make a courtesy telephone call to inform the contractor and make appropriate arrangements if a planned visit will involve contractor personnel. If desired, the visitor may send a letter to confirm arrangements made. Such a letter will not substitute for any notification required by 1-503.1.

b. If a planned visit will involve contract administration personnel, make advance arrangements comparable to those for contractors as stated in a above.

1-504 Access to Records of Contractor

1-504.1 General

a. Statutes, implementing regulations, or contract terms may provide access to contractors' records for purpose of audit (1-504.2). The clause at FAR 52.215-2 provides the auditor's primary authority for access to contractor records. This clause must be inserted in all negotiated contracts, except those (1) not exceeding the simplified acquisition threshold; (2) for commercial items; or (3) for utility services. (See FAR 15.209(b)). This clause provides the contracting officer's representative with the authority to examine and audit contractors' books, records, documents and other evidence and accounting procedures and practices, regardless of form (e.g., machine readable media such as disk, tape, etc.) or type (e.g., data bases, application software, data base management software, utilities, etc.), sufficient to reflect properly all costs claimed to have been incurred or anticipated to be incurred in performing cost-reimbursement, incentive, time-and-material, labor-hour, or price-redeterminable contracts. The clause also provides access rights for the purpose of evaluating the accuracy, completeness, and currentness of cost or pricing data.

b. In addition to access to specific cost records, access to records refers to contractor policies, procedures, systems, manage-

ment reports, personnel, minutes of its board of directors meetings, charter and bylaws, and any other information source which affects and reflects the incurrence, control, and allocation of costs to contracts.

c. Adequate audits are possible only when all existing evidence which pertains to the representations, claims, or proposals under audit is available to the auditor. A contractor's failure to make all pertinent records available to the auditor when needed leads to audit reports that contain qualified or adverse opinions, and may result in more difficult negotiations and delay in the contract award or settlement.

d. For field pricing support audits, FAR 15.404-2(c)(3) states that the auditor is responsible for determining the scope and depth of audit. Inherent in this responsibility is the right of auditors to determine the specific records or other evidential matter needed to accomplish the audit. DCAA auditors must adhere to generally accepted government auditing standards in determining what comprises competent, relevant, and sufficient evidential matter. Therefore, auditors must use good judgment and rationale in deciding what contractor records or other evidential matter should be sought. In determining the sufficiency of evidence needed, auditors must consider the audit objective, the risk, and materiality of an error or misstatement in the area being audited and the effect on the audit opinion. See 5-502.1 for additional guidance on access to contractor budgets and 14-304 on access to cash flow forecasts.

e. FAOs should not enter into written agreements with contractors, or concur with contractor letters, containing access to records provisions or procedures. Any such written agreements may give the appearance of limiting access. However, responses to contractor requests for written confirmation that proprietary data will be protected in accordance with applicable laws and regulations are permissible. See 1-807 for guidance on memorandums of agreement pertaining to matters other than access to contractor records.

f. While FAOs will not sign agreements, letters or procedures indicating concurrence on access to records matters, they will obtain and review any such documents

containing contractor procedures or policies. If the FAO believes the policies and procedures will invoke unreasonable delays, waste audit time or otherwise impede the orderly process of the audit, the contractor should be notified in writing of such concerns in accordance with procedures in 1-504.4, and 1-504.5. If no such concerns exist, the FAO should follow contractor procedural arrangements for obtaining access to needed information.

g. Agreements between a contracting officer and a contractor which appear to restrict DCAA's access to a contractor's records should be transmitted through Headquarters, ATTN: PAS, to the General Counsel for a legal analysis.

1-504.2 Statutory and Regulatory Requirements

Among statutory bases for access to contractor records are 10 U.S.C. 2313(a), "Examination of Books and Records of Contractor," 10 U.S.C. 2306a, ("Truth in Negotiations"), and 41 U.S.C. 422k (Cost Accounting Standards). The following acquisition regulations have implemented these statutory and other access requirements:

a. FAR 15.209(b)(1) requires an "Audit - Negotiation" clause (FAR 52.215-2) in all negotiated contracts other than those which are not expected to exceed \$100,000.

b. FAR 15.408 Table 15-2, Instructions for Submission of a Contract Pricing Proposal.

c. FAR 52.215-20 and 52.215-21 (Requirements for Cost or Pricing Data or Information Other Than Cost or Pricing Data).

d. FAR 52.230-2 and 52.230-3 (Cost Accounting Standards).

e. FAR 52.216-4 (Economic Price Adjustment - Labor and Material).

f. FAR 52.232-16 (Progress Payments).

1-504.3 Guidance for Requesting Access to Contractor Records

a. Records should first be verbally requested during the FAO's normal course of business with the contractor. The auditor should be ready to discuss the basis for the request with the contractor. CAM or other

Agency guidelines should not be cited as the reason for requesting a record in lieu of explaining the underlying audit need.

b. Occasionally contractors may ask that requests for records be in writing. Auditors should generally accommodate the contractor where it will facilitate access and avoid misunderstanding. However, contractor requirements that all requests for records be in writing are unacceptable as such a process would unnecessarily impede the audit process.

c. All requests should be for specific records rather than a general class of records. For example, requests should be for "the general ledger for FY 2000," or "the payroll register for the pay period ending July 4, 2000" rather than "the general ledger," or "payroll data." Addressing specific records relates the request to a specific audit. This action should avoid lengthy discussion with the contractor on the merits of the request.

d. When the auditor does not know precisely what records exist, a listing of what does exist (such as "recurring financial reports" or "IT files") should be requested. The listing itself may be considered a record, particularly if the contractor already produces such a list for other purposes.

e. Unusual or extensive requests for reproduction of contractor records should be made by supervisors and be in writing if requested by the contractor.

f. When original records or documents are provided by the contractor, auditors will ensure that all such records and documents are returned to the contractor as soon as possible.

g. Circumstances justifying an evaluation of original records at locations other than contractor facilities include records seized by investigators under a warrant or obtained by government counsel through criminal, investigatory, or civil subpoena. DCAA has the right to evaluate any records in the hands of government agents. Regardless of the circumstance under which the auditor obtains access to contractor records, due professional care will be exercised in protecting the records while in the auditor's possession.

h. Auditors will not remove original records from the locations at which they are

furnished without prior Agency approval. Auditors who might be confronted with an unusual circumstance and need to move the contractor's original records from the location at which they are furnished will request their regional office to obtain the contractor's authorization. Auditors will fully explain in their request the reasons the contractor's original records cannot be used at its site. Regional offices will submit their approved auditors' requests to Headquarters, attention: PAS, for evaluation and coordination with legal counsel.

i. Auditors should not request copies of contractor records for the sole purpose of allowing the auditor to work at home rather than at the contractor's site. Auditors who might be confronted with an unusual circumstance related to working at home, and need to obtain and remove a copy (total or a portion) of the contractor's original records from the location at which they are furnished will request the FAO manager's written request to obtain and document the contractor's authorization. Auditors will fully explain in their request the reasons the records cannot be used at the contractor's site and why a copy is needed. Contractors who encourage auditors to take copies of records from their premises rather than work onsite should not be accommodated without good cause. Auditors may continue to request copies of selected records which are necessary to document audit files and support audit positions. See 1-507 guidelines for safeguarding contractor information.

1-504.4 Conditions Representing Denial of Access to Contractor Records

The following conditions qualify as access to records problems where a specific record is needed within these general areas:

a. Contractor refusal to provide access to any requested record including (i) support for unclaimed costs excluded under CAS 405 or (ii) records maintained in an electronic or optical format (even if paper copies are available).

b. Unreasonable delays by contractor representatives in permitting the audit commencement or in providing access to needed data or personnel. Since the determination of unreasonable delay is

subjective, it is important to distinguish between occasional delays due to unexpected circumstances (for example, a key employee is out sick) and recurring delays which suggest that it is a contractor's practice to engage in delaying tactics. Recurring delays should be carefully documented with the names of contractor employees, data requested, dates when requested, dates when provided, etc.

c. Restrictions on reproduction of necessary supporting evidential matter.

d. Partial or complete denial of access to internal audit data or other management reports on contractor operations.

e. Denial of access to the contractor's data base. This denial can be a refusal to produce the necessary reports, or allow DCAA to validate reports by testing the database using DATATRAK, or other data retrieval software.

f. Chronic failure of contractor personnel to comply with agreed-to dates for furnishing data.

g. Assertion of attorney-client privilege or attorney work product rule. The auditor is not in a position to accept a claim of attorney-client privilege or the work product rule. Therefore, auditors should request that Headquarters, Policy and Plans obtain a legal opinion from DCAA counsel when a claim of privilege is made.

1-504.5 Resolution of Contractor Denials

a. When contractor personnel deny or unreasonably delay access to records needed for audit, auditors should immediately notify and thoroughly discuss the issue with responsible contractor officials authorized to make decisions. Reasonable effort should be made to resolve the issue in a timely manner at the lowest possible DCAA and contractor management level. If access is denied following the initial conference with the contractor, the auditor should follow the procedures cited in DCAA Instruction No. 7640.17.

b. When implementation of DCAA Instruction No 7640.17 does not resolve contractor denial of access to records, then the regional office should consider requesting Headquarters to subpoena the records in accordance with DCAA Regulation No.

5500.5. The DCAA Director is authorized to subpoena contractor documents and records needed to audit costs incurred under flexibly priced government contracts and subcontracts, and to audit the accuracy, completeness, and currentness of cost or pricing data used for negotiated government contracts and subcontracts.

1-504.6 Impact of Contractor Denial of Access

a. Costs which are unsupported due to lack of access to records should be questioned under price proposals. Such costs should also be questioned on progress payments and suspended under cost-reimbursement contracts per 6-902a. A contractor's denial of access to records may be so extensive that it is impractical to perform any audit or determine an amount affected by the denial. In such a case, immediately notify all procurement and contract administration activities that may be involved with the subject audit and request their assistance. In addition, the auditor should recommend suspension of payments on all affected contracts until the access to records problem is resolved.

b. The impact of a contractor's denial of access to records on the scope of audit should be described in the "Qualifications" and "Results of Audit" paragraphs of the audit report. The report should identify the records that were sought, discuss the need for the records, and describe the measures that were taken to gain access (see 10-210.4).

1-505 Other Access to Records Issues -- Transfer of Records from Hard Copy to Computer Medium

a. FAR 4.703(d), which was effective February 27, 1995, and Public Law 103-355 allow contractors to retain records in any medium or any combination of media if the following requirements are met:

(1) The requirements of FAR Subpart 4.7 are satisfied.

(2) The process used to create and store records must reproduce the original document, including signatures and other written or graphic images, completely, accurately, and clearly.

(3) The procedures for data transfer, storage, and retrieval protect the original data from alteration.

b. To comply with FAR 4.703(d), a contractor's system of transferring records from hard copy to computer medium should contain the following elements:

(1) A reliable computer medium (typically, this includes vendor supported benchmark data).

(2) Documented procedures for data retention and transfer which provide reasonable assurance that the integrity, reliability, and security of the original hard copy data will be maintained.

(3) An audit trail describing the data transfer.

(4) A computer medium which cannot be destroyed, discarded, or written over. The contractor will need to consider appropriate transition, after exception reporting, to non-eraseable storage.

(5) A transfer process that includes all relevant notes, worksheets, and other papers necessary for reconstructing or understanding the records (this also includes appropriate back-up procedures).

(6) Adequate internal control systems, including segregation of duties, particularly between those responsible for maintaining the general ledger (and related subledgers) and those responsible for the transfer process.

(7) A procedure prohibiting record destruction during the implementation phase until it can be shown that the system is actually providing acceptable copies of the records being transferred.

(8) An acceptable system of continuing surveillance over the computer medium transfer system. This includes comparisons of the original records and the computer generated copies, as well as periodic internal control audits. The policies and procedures should provide for the maintenance of adequate evidence to support the nature and extent of the continuing surveillance.

(9) A requirement to maintain all original records for a minimum of one year after the date of transfer.

(10) Adequate procedures for periodic internal and external audit.

(11) Adequate procedures for labeling and storing the computer medium in a se-

cured environment. The storage procedures should meet the minimum standards prescribed by the National Archives and Records Administration for maintenance and storage of electronic records.

(12) Adequate procedures for the random sampling and testing of all records retained in accordance with the requirements of the National Archives and Records Administration. Procedures should include provisions for notifying the contracting officer of any significant data losses on a timely basis.

(13) Procedures for retrieving retained records at the time of audit. Procedures should include provisions for printing a hardcopy of any record. In addition, policies should include provisions for access by Government representatives, at the time of examination, to the necessary computer resources (terminal access, printer, etc.) that are necessary for the production of the retained records.

(14) Procedures for preventing the destruction of any hard copy records that are required to be maintained by existing laws or regulations.

1-506 Other Access to Records Issues -- Records Destroyed or Not in Condition for Audit

a. When the contractor's records are inadequate, not current, or otherwise not in condition for audit, immediately bring the deficiency to the contractor's attention. If corrective action is not instituted promptly, notify the regional office, the requesting procurement activity, and other government offices affected. Except as authorized by law, regulation, or court order, the auditor should not undertake or participate in correcting the deficiencies.

b. When records are alleged to have been destroyed, lost, stolen, or otherwise cannot be located, obtain a written statement from the contractor describing the circumstances. Notify the contracting officer of the extent to which an audit can be made using the remaining available records. The auditor should not attempt reconstruction of contractor's records.

c. Any audit reports issued under these circumstances should contain appropriate comments on all the facts, with any nec-

essary disclaimer, adverse opinion, qualifications, and/or explanations of questioned costs.

1-507 Security Requirements for Contractor Information

a. Perform audits in such privacy as warranted under the circumstances, and provide all necessary safeguards of contractor-confidential data. Working papers, audit reports, unpublished financial statements, correspondence, files, and other records and sources available to or in the possession of the auditor usually contain information which the contractor regards as confidential. Use such information only for performance of official duties. Except as authorized by law, regulation, or court order the auditor shall not disclose the information to other persons except with the contractor's permission, and shall not discuss information in a manner which might permit disclosure to unauthorized persons.

b. The law pertaining to unauthorized disclosure of contractor information, and penalties for violation thereof, is contained in 18 U.S.C. 1905, as amended, and is quoted below:

Whoever, being an officer or employee of the United States or of any department or agency thereof, or agent of the Department of Justice as defined in the Antitrust Civil Process Act (15 U.S.C. 1311-1314), publishes, divulges, discloses, or makes known in any manner or to any extent not authorized by law any information coming to him in the course of his employment or official duties or by reason of any examination or investigation made by, or return, report or record made to or filed with, such department or agency or officer or employee thereof, which information concerns or relates to the trade secrets, processes, operations, style of work, or apparatus, or to the identity, confidential statistical data, amount or source of any income, profits, losses, or expenditures of any person, firm, partnership, corporation, or association; or permits any income return or copy thereof or any book containing any abstract or particulars thereof to be seen or examined

by any person except as provided by law; shall be fined not more than \$1,000, or imprisoned not more than one year, or both; and shall be removed from office or employment.

c. Release of contractor information to the General Accounting Office, members of Congress and congressional committees and their staffs, offices of inspector general, and government investigative agencies should be handled in accordance with the procedures outlined in the applicable paragraph under 1-203, 1-404.7, or 1-405. Release of contractor provided information in litigation is governed by DCAAR 5410.11 and the discovery rules of the forum involved. Release of contractor provided information in response to requests under the Freedom of Information Act is governed by DCAAR 5410.8.

1-508 Assistance in Preparing Claims Against the Government

a. Officers and employees of the government are prohibited by law (18 U.S.C. 205) from acting as agents or attorneys for prosecuting any claim against the United States or aiding or assisting in the prosecution or support of any such claim other than in the proper discharge of their official duties. A part of the auditor's official duties is to inform contractors of the manner in which public vouchers, termination settlement proposals, cost statements, and other financial representations connected with the negotiation and performance of government contracts should be prepared and submitted.

b. The auditor may advise contractors as to types of costs which are considered allowable and unallowable and on request may orally express an opinion as to the acceptability of a specific item of cost.

c. The auditor may advise contractors to screen and not claim costs specifically unallowable by contract terms, statute, public policy, or government regulations. If the contractor consistently claims costs which are clearly unallowable under the contract terms, refer the matter to the Plant Representative/ACO for appropriate action. (See 8-405.)

1-600 Section 6 --- Relationship with the News Media

1-601 Introduction

This section contains guidelines regarding contacts with the news media.

1-602 General

DCAA Regulation 5230.1 implements DoD Directive 5230.9, Clearance of DoD Information for Public Release. The Regulation includes guidance regarding information to be furnished the news media. Information in any form concerning Agency plans, policies, programs, or operations must be cleared through Headquarters before release.

1-603 Processing Requests for Information

Agency personnel are often contacted directly by the news media. Although talking with the news media is not prohibited, the above references govern the release of information. If contacted by the media, the employee should obtain the person's name, the organization represented and telephone number, and the questions to be answered. This information and the circumstances surrounding the request should be conveyed to the Agency Executive Officer (DX), Headquarters. The Executive Officer is responsible for deciding how the request from the media will be satisfied and for obtaining appropriate clearance for the release of information.

1-700 Section 7 --- Processing Freedom of Information Act (FOIA) Requests**1-701 Introduction**

This section contains information and pertinent references for processing Freedom of Information Act (FOIA) requests.

1-702 General

The Freedom of Information Act, 5 U.S.C. 552, is a public law which is designed to allow the general public access to government records. DCAA Regulation 5410.8, DCAA Freedom of Information Act Program, implements DoD Directive 5400.7, DoD Freedom of Information Act Program. DCAA's implementing regulation is codified as 32 C.F.R. Part 290 and contains policy and procedural information relative to the Act. This issuance is supplemented by DCAAP 5410.14, DCAA Freedom of Information Act Processing Guide. Additional information may be found on the DCAA web site.

1-703 Scope of the Statute

a. All audit work products are subject to public demand under the Freedom of Information Act. Although there is a preference for release of government documents, aspects of these documents may be subject to withholding under one or more of the established exemptions contained in the Act. The Agency must prove that a specific harm will be realized to preclude release of the requested records. An explanation of

the exemptions is contained in DCAAP 5410.14.

b. Typically, requestors seek copies of audit reports and working papers. Some requests are specific to a particular audit report while others are more general. Since the release of most audit reports is at the sole discretion of the contracting officer, the primary demand for records will be limited to the working papers. Requests for DCAA records compiled to support an ongoing investigation are normally referred to the investigative agency for processing until all actions related to the case have been resolved. Similarly, requests that would cover records generated in support of a trial attorney are covered by the attorney work product privilege. Their release should be coordinated with the trial attorney or his/her successor.

1-704 Processing Requests for Information under FOIA

Request for records may require a search of the Agency's records to identify potentially responsive documents and information pertinent to the releasability of each record. Specific instructions for the processing of each request will be provided by the FOIA Coordinator at the regional level and the DCAA Information and Privacy Advisor for the Headquarters. A listing of Agency FOIA personnel may be found in DCAAR 5410.8 and DCAAP 5410.14.

1-800 Section 8 --- Auditor Participation on Contractor and Government Process Action Teams (PATs); Integrated Product Teams (IPTs); Management Councils; and Related Streamlined Acquisition Initiatives

1-801 PATs - General

a. Auditors are often asked to participate on contractor or government PATs. In most cases, the PATs' objectives are to study and suggest improvements to systems of internal controls as well as to analyze the efficiency and effectiveness of the process. This section provides guidance on auditor participation on PATs.

b. PATs are generally formed to evaluate and improve a process or system. Generally, PAT membership is cross-functional and consists of nonmanagement personnel. PATs are generally advisory in nature and provide their recommendations to management for further consideration and implementation.

1-802 Auditor's Role on Contractor Teams Such as PATs, Steering Committees, and Management Advisory Boards

a. The auditor can be a full voting participant on contractor teams such as PATs that are not empowered to make management decisions. Usually, the auditor is asked to participate on PATs addressing contractor systems for which DCAA has audit responsibility such as accounting, billing, compensation, and estimating systems. For PATs focusing on other systems for which DCAA does not have the primary responsibility, DCAA should provide support as requested and appropriate in the circumstances.

b. DCAA's role as independent financial advisor to the contracting officer limits our participation on contractor teams, management advisory boards, steering committees, or other similar groups that are empowered to make management decisions. The auditor cannot serve as a member of these types of groups. However, the auditor can participate as an observer at team meetings. The auditor can also provide contract audit and accounting advice to these groups. The type of advice generally provided includes:

- Input on the contractor's internal control system (e.g., expectations, strengths, and weaknesses)
- Briefings on the results of current risk assessments (e.g., ICAPS and PASS)
- Advice on contract accounting matters

To maintain independence, the auditor cannot be involved in the group's decision making processes such as voting on implementation of recommendations and process improvements.

c. The auditor should document important aspects of participating on the team. Examples of items to document include:

- The team's objectives
- The auditor's role on the team
- Key team milestones and when those milestones were accomplished
- Discussions relating to the contractor's internal control system
- Briefings of current risk assessments
- Advice on contract accounting matters
- Metrics developed by the team to assess effectiveness of the process
- The team's conclusions and recommendations

The auditor should also follow up to evaluate any changes made to the system and consider these changes when scoping any future audits of the system.

d. Since the system that is being evaluated by the team belongs to the contractor, the contractor performs most of the action to implement improvements to the system, while the government actively monitors the improvements. The auditor's participation on contractor teams does not preclude DCAA from conducting audits and expressing an opinion of the particular process in the future, even if the opinion is contrary to the recommendations or conclusions of the teams. Figure 1-8-1 is an example of a letter that should be sent to the contractor describing the auditor's role on contractor teams.

1-803 Auditor's Role on Government PATs

Auditors can fully participate on government PATs that are studying processes involving DCAA mission responsibilities. Examples of government PATs that auditors are frequently asked to participate on include PATs formed to study and suggest improvements on acquisition processes or regulations.

1-804 Integrated Product Teams (IPTs) - Background

a. On May 10, 1995, the Secretary of Defense issued a memorandum directing the use of IPTs to the maximum extent practicable throughout the DoD acquisition process. DoD IPTs are composed of representatives from all appropriate organizations and functional disciplines working together with a team leader to build successful and balanced procurement programs. The intent in using IPTs is to avoid rework at the end of a process by identifying problems and finding potential solutions at the earliest possible point in the procurement process. As certain major acquisition programs proceed toward major milestone decisions or reviews, each program establishes and executes an overarching IPT (OIPT), working-level IPT (WIPT), integrating IPT (IIPT), and program-level IPT (PIPT), as appropriate:

- OIPTs provide assistance, oversight and audit as an acquisition program proceeds through its acquisition life-cycle. OIPTs are comprised of staff representing the Office of the Secretary of Defense and the service components.
- WIPTs focus on a particular topic such as test and evaluation, cost analysis, performance analysis and similar activities. The program manager, or designee, forms and leads WIPTs.
- IIPTs are a type of WIPT. The IIPT coordinates all WIPT efforts and covers all topics not otherwise assigned to another WIPT.
- PIPTs focus on program execution. Within this category are procurement IPTs comprised of participants from

the program office, contracting office, DCAA, DCMA, and the contractor.

b. In general, the procuring contracting officer (PCO) is encouraged to establish a procurement IPT to aid in making the best decisions on significant aspects of the procurement. The IPT will begin work when the RFP/RFQ is being developed. The IPT normally continues its work throughout the proposal development, audit, negotiation, contract award, and contract performance. The PCO will chair the IPT, determine its membership, and set its scope. The major objectives of an IPT are better RFPs/RFQs, better proposals, reduced cycle time between issuance of RFP/RFQ and contract award, and better understanding of the contract requirements. The makeup of the IPT will normally include the buying activity, DCMA, DCAA, and the contractor.

c. The following are key characteristics of a successful IPT:

- Full and Open Discussions. Each IPT member brings to the team unique expertise that needs to be recognized by all. Full and open discussion does not mean that the team must act on each view. There can be disagreement. The auditor as a member of the IPT is expected to act as an independent financial advisor and to provide an independent audit opinion.
- Empowered, Qualified Team Members. IPT members should be empowered by their leadership to provide advice and speak for their organizations on interim decisions in their functional area of responsibility. In the case of DCAA, we can fulfill this role without compromising GAGAS (related to adequate supervision) by having the DCAA IPT participants maintain frequent communication with their supervisors. Auditors should use their experience and judgment in determining what interim matters need to be discussed with their supervisors before sharing positions with the IPT. The needed supervisory review and approval of positions should be transparent to other participants. In all cases the IPT will be advised that a final audit

opinion will be confirmed in an audit report unless the Contracting Officer has waived the audit.

- Dedicated/Committed Proactive Participation. Consistent team participation by people with institutional knowledge of the functional areas is necessary for the IPT's success.
- Issues Raised And Resolved Early. Team members should openly raise and discuss issues at the earliest possible opportunity.

1-805 Auditor's Role on DoD IPTs and Related Streamlined Acquisition Initiatives

a. The auditor may participate in IPTs and related streamlined acquisition initiatives that require financial advisory services. The auditor's role on the IPT during the proposal preparation process is to provide real-time feedback on such items as:

- Proposal support data expectations
- Proposal estimating techniques
- Impact of outstanding estimating deficiencies on the proposal preparation process and actions needed to correct the deficiencies

To maintain audit independence, the auditor should not prepare any part of the contractor's proposal.

b. The auditor should coordinate with the contracting officer to establish if the proposal will involve an IPT and exactly what services are required; i.e., an examination of the complete proposal, examination of part of the proposal, or an application of agreed-upon procedures. The auditor should acknowledge the request for services after obtaining a clear understanding of the contracting officer's needs. Refer to figures 1-8-2 and 1-8-3 for examples of acknowledgement letters for IPTs encompassing examinations and applications of agreed-upon procedures, respectively.

c. As part of the IPT process, auditors may review management approved parts of the proposal as the parts are completed by the contractor and submitted to the IPT (for example, consolidated bills of material, major subcontracts, and other direct costs). Management's written approval of any partial submission is critical to avoiding wasted audit effort reviewing interim draft

proposals. The auditor normally will be expected to discuss interim audit findings with the team on a real-time basis. In many cases, the contracting officer will also ask the auditor to communicate the interim audit results to the contractor for comment or correction before submission of the final signed proposal.

d. In all cases, at the conclusion of the audit evaluation and receipt of the contractor's final signed proposal, the FAO will issue an audit report. Audit reports will not be issued on a piecemeal basis on each part of the proposal. If the contractor has an effective system for integrating the proposal parts, then the cycle time between submission of the full proposal and the issuance of the audit report should be very short. Ideally, at the point when the contractor submits its full proposal, the auditor already will have completed most of the field work. The remaining work usually entails a reconciliation of the proposal parts submitted during the process with the formally signed proposal package and follow-up with the contractor on any differences.

e. The auditor should communicate to the IPT that the FAO can issue an audit report in substantially reduced cycle-time and meet the IPT's needs if the contractor participates successfully on the IPT. The auditor should promptly advise the IPT of any problems that would prevent issuing the audit report by the agreed-upon date. The auditor should work with the other IPT members to resolve these problems so that the due date can be met.

f. The auditor's real-time feedback during the proposal preparation and evaluation stages can either be oral or in writing. If the feedback is oral, it should be documented in the working papers. The auditor should advise the IPT that the feedback represents in-process advisory services and that the independent audit report will be issued soon after submission of the entire proposal.

g. Before preparing the audit report, the auditor should coordinate with the contracting officer to determine any special reporting requirements. The audit report format will vary depending upon the services requested by the contracting officer (e.g., examination, review, audit of parts of

a proposal, or application of agreed-upon procedures). The auditor will generally follow the appropriate reporting guidance for each of these audits (see 10-300 and 10-1000). These reports should express an opinion on the cost or pricing data included in the formally signed proposal submission in accordance with Agency opinion guidance (see 10-300). The opinion will vary depending upon the services provided. The report should comment on significant deficiencies disclosed during the evaluation and how these deficiencies were resolved in the formally signed proposal submission. The report should also comment on any significant outstanding deficiencies. Qualifications should be included only if there were circumstances that significantly and adversely impacted the conduct of the evaluation and its results. (See 10-210.4)

1-806 Management Councils, Single Process Initiative (SPI), and Cost-Benefit Analysis

1-806.1 Management Councils

a. One of the Defense Contract Management Agency's (DCMA's) initiatives is to establish and support management councils at larger contractor locations to facilitate the implementation of process improvements. FAOs should actively participate in these management councils and provide any financial advice that may be needed.

b. A management council is a team of all the stakeholders involved with business activities at a particular contractor location. The management council provides a forum for communicating ideas, implementing change, and accelerating improvements in the acquisition process.

c. DCMA encourages and supports the formation of management councils at prime contractor locations that have a major acquisition program, account for more than 80 percent of the Contract Administration Office's unliquidated obligations, or any other location where a council would be beneficial. Contractors may establish management councils at organizational levels above the local management level (e.g., sector or corporate level).

d. Council membership includes representation from all stakeholders (contractor, DCMA, DCAA, and major customers). Council members must be senior enough to commit resources and make decisions for their organizations within applicable regulations and statutes. Normally, the FAO manager should represent DCAA. However, at smaller contractor locations, the FAO manager may delegate this responsibility to a supervisory auditor. At a corporate management council that includes Service Headquarters or Office of the Secretary of Defense members, the Regional Director should represent DCAA.

e. Chapter 0.5 of DCMA Directive 1, Contract Management "One Book," provides DCMA policy on management councils. The DCMA "One Book" is available on DCMA's home page at <http://home.dcmamil>.

f. DoD's policy on corporate management councils is provided in a September 14, 1999 memorandum issued by the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD [AT&L]). This policy memorandum is available on the Defense Acquisition Legacy Deskbook's Reference Library (under "Mandatory," "DoD Documents," and "Policy Letters & Memos").

1-806.2 Single Process Initiative (SPI)

a. Management councils have been key to facilitating process improvements at contractor facilities, in particular, process improvements related to the SPI. The SPI allows contractors to have existing contracts modified to replace multiple government-unique management and manufacturing systems with common, facility-wide systems. Contractor proposals are viewed and approved by a management council. After approval of a contractor's SPI proposal, the ACO executes a block change modification that modifies all affected contracts at the facility.

b. DCMA manages the SPI. Chapter 0.2 of DCMA Directive 1, Contract Management "One Book" provides DCMA policy on the SPI. The DCMA "One Book" is available on DCMA's home page at <http://www.dcmamil>.

c. The SPI was implemented in December 1995 in response to a December 5, 1995 memorandum, "Common Systems/ISO-9000/Expedited Block Changes," issued by the Secretary of Defense, which directed the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD [AT&L]) to promulgate the SPI guidance. A December 8, 1995 USD (AT&L) memorandum, "Single Process Initiative," provides the DoD implementing SPI guidance. Initially, the SPI was intended to be a short-term initiative. However, on June 3, 1998, the USD (AT&L) issued a memorandum, "Single Process Initiative--A Long Term Perspective," which institutionalized the SPI. The June 3, 1998 memorandum identifies the SPI as the mechanism to implement contract changes that facilitate civil-military integration. An August 30, 2000 USD (AT&L) memorandum, "Escalation Policy for the Single Process Initiative," established an escalation process for the SPI. These four DoD policy memorandums are available on the Defense Acquisition Legacy Deskbook's Reference Library (under "Mandatory", "DoD Documents," and "Policy Letters & Memos).

1-806.3 Cost-Benefit Analysis

a. The auditor's principal responsibility in the SPI is to evaluate the contractor's cost-benefit analysis. The cost-benefit analysis is a rough order of magnitude (ROM) estimate of the costs and savings associated with the process change. The cost-benefit analysis does not need to be supported by cost or pricing data.

b. When evaluating a cost-benefit analysis, the auditor should first determine if it includes all of the relevant implementation cost and savings information (instant savings on existing contracts and annual future savings impacting forward pricing).

c. Attributes of an adequate cost-benefit analysis are as follows:

(1) The cost-benefit analysis should include an analysis of:

- Implementation costs,
- Estimated savings on existing contracts, and
- Estimated annual future savings to reflect in forward pricing.

(2) The annual future savings should be forecasted for the period covered by the contractor's indirect expense rate forecast (usually five years).

(3) The cost-benefit analysis should identify both direct and indirect implementation costs and savings. Estimated implementation costs and savings should be broken down by the contractor's normal direct and indirect cost elements.

- Direct implementation costs and savings to be included in contract price proposals
- Indirect implementation costs and savings to be included in forward pricing rates.

(4) There should be rationale to support significant estimates of implementation costs and savings. For example, the analysis should identify the implementation plan and procedures, and the related costs. The major implementation cost items should include estimating rationale. The analysis should also identify the changed (deleted and new) requirements as a result of implementation of the single process initiative, and the related savings. The savings should be broken out by savings on existing contracts and annual savings after implementation. The major savings' areas should include estimating rationale.

(5) The cost-benefit analysis should identify recurring versus non-recurring implementation costs and savings.

(6) The level of detail required is dependent upon the circumstances. Consider such items as technical complexity, government participation, and the materiality of estimated implementation costs and savings. More significant changes would usually require more supporting data. Parametrics and information other than historical data may be used to support the estimates, if appropriate.

d. If the process improvement cost-benefit analysis does not include all relevant items, the auditor should immediately conduct fact-finding with the contractor to obtain the information or the reasons why the information is not relevant. If the fact-finding does not result in obtaining the relevant implementation cost and savings information, the auditor should request, in writing, the assistance of the ACO in obtaining the necessary data.

1-807 Memorandum of Agreement

a. When participating on a PAT, PROCAS team, IPT, other similar teams, or Management Councils, the auditor may be asked to sign a teaming agreement or Memorandum of Agreement (see 1-504.1.e for guidance on memorandums of agreement pertaining to access to contractor records). Auditors generally should not sign these agreements. The auditing standard of independence precludes DCAA from entering into agreements relating to audit scope. Even when the agreement does not relate to audit scope, there is sometimes an appearance of independence problems when DCAA signs an agreement. Instead of signing an agreement, the auditor may satisfy the customer's needs by communicating to the team leader in writing the auditor's expected role on the team. If the contractor, Federal agency, or team leader insists on the FAO entering into an agreement, the FAO should send the proposed memorandum of agreement and background material through the regional office to Headquarters, ATTN: PAS, for coordination before executing the agreement.

b. As part of the AFMC/Interagency Contract Closeout Process Action Team (PAT), DCAA agreed to the use of teaming arrangements similar to the Audit

Cycle Time Reduction Initiative to complete and settle the annual incurred cost audit and closing out of contracts. FAOs may be asked to sign Incurred Cost Audit Memorandums of Agreement. In this instance, since the proposed MOA pertains to the scheduling of work rather than audit scope, there is no problem with the FAO manager signing such a memorandum. The FAO manager should ensure that the scheduling requested can be accomplished with current programmed and/or anticipated work load and projected staffing prior to signing the MOA. Items that will usually be included in the MOA are:

- Detailed schedules for submission, audit, and negotiation of final overhead rates
- Outline/description of adequate data for the final overhead proposal submission
- Timeliness parameters for the audit and negotiation process
- Identification of any training needs, such as the Audit Cycle Time Reduction Workshop

To assist in the tracking of the Agency's progress in accomplishing the PAT recommendations, FAOs should forward copies of executed MOAs to the attention of the Policy Programs Division (PPD) in Headquarters.

Figure 1-8-1
Notification Letter to Contractor

Danica Smith, Controller
ABC Corporation
507 Main Street
Any City, State 00000

Dear Ms. Smith:

You have requested that DCAA provide a participant on a PAT you are establishing to study and suggest improvements in your processes and internal controls for {identify system or process that is being evaluated}. I believe your desire to pursue continuous process improvement in this critical area has significant potential benefit to the government. Accordingly, I have assigned Ms./Mr.____ of my staff to participate. They may be contacted at {telephone no.}.

While I am supportive of your PAT efforts and understand the value of a DCAA participant, it is important that you acknowledge the following conditions regarding such participation. Ms./Mr.____ is participating in her or his individual capacity, and his or her contributions do not represent formal audit opinions of the DCAA. As such, DCAA reserves the right to conduct such audits in the future as are considered necessary, in accordance with FAR, and to render independent opinions as a result of such work, even if such opinions are contrary to the recommendations or conclusions of this PAT.

Sincerely,

James Jones
FAO Manager

Figure 1-8-2
Acknowledgement Letter for DCAA Participation on IPT
Proposal Examination

MEMORANDUM FOR CONTRACTING OFFICER, DEPARTMENT OF THE AIR
FORCE, HEADQUARTERS SPACE AND MISSILE
SYSTEMS CENTER (AFMC), 5555 VELA WAY, SUITE
5555, EL SEGUNDO, CA, 90345-4659

SUBJECT: Acknowledgement of Request for DCAA Participation on an Integrated
Product Team for the Development Phase of the F-22 Aircraft, ABC Com-
pany

REFERENCE: RFP No. WAFB12-XX-R-0052

We have received your request for services, dated October 11, 20XX, requesting audi-
tor participation on an Integrated Product Team (IPT) leading to the award of a contract
for the Development Phase of the F-22. We have established assignment number
1234-20XXJ22000001 to accomplish this effort.

You have requested that DCAA participate in developing the IPT charter and timelines
for goal accomplishment, and in providing financial advisory services to include examina-
tion of the resulting contractor-prepared pricing proposal. Our auditors will fully partici-
pate on the IPT. The auditor's role during the proposal preparation process is to provide
real-time feedback on such items as:

- proposal support data expectations,
- proposal estimating techniques, and
- impact of outstanding estimating and accounting system deficiencies on the pro-
posal preparation process and actions needed to correct the deficiencies.

The auditor will begin examining completed proposal parts as they are approved by
contractor management and submitted. To maintain auditor independence, the auditor
will not assist the contractor to prepare the pricing proposal. The auditor will issue a re-
port to communicate the proposal evaluation results after the contractor submits the for-
mally signed proposal. We anticipate that the issuance of our report will be expedited
because of our participation on the IPT.

We have assigned Mr. Joseph Kissinger, Supervisory Auditor, and Mr. Robert White,
Senior Auditor, as our IPT representatives. If you require additional audit services, please
contact them at (703) 555-1111 or (703) 555-1112, respectively. Our fax number is
(703) 555-9999, and our e-mail address is dcaa-faoxxxx@dcaal.mil.

Kalyn LeBlanc
Branch Manager

Figure 1-8-3
Acknowledgement Letter for DCAA Participation on IPT
Application of Agreed-Upon Procedures

MEMORANDUM FOR CONTRACTING OFFICER, DEPARTMENT OF THE AIR
FORCE, HEADQUARTERS SPACE AND MISSILE
SYSTEMS CENTER (AFMC), 5555 VELA WAY,
SUITE 5555, EL SEGUNDO, CA, 90345-4659

SUBJECT: Acknowledgement of Request for DCAA Participation on an Integrated
Product Team and Application of Agreed-Upon Procedures for the Development
Phase of the F-22 Aircraft, ABC Company

REFERENCE: RFP No. WAFB12-XX-R-0052

We have received your request for services, dated October 11, 20XX, requesting auditor participation on an Integrated Product Team (IPT) leading to the award of a contract for the Development Phase of the F-22. We have established assignment number 1234-20XXJ22000001 to accomplish this effort.

You have requested that DCAA participate in developing the IPT charter and timelines for goal accomplishment, and in applying agreed-upon procedures on the resulting contractor-prepared pricing proposal. Our auditors will fully participate on the IPT. The auditor's role during the proposal preparation process is to provide real-time feedback on such items as:

- proposal support data expectations,
- proposal estimating techniques, and
- impact of outstanding estimating and accounting system deficiencies on the proposal preparation process and actions needed to correct the deficiencies.

The auditor will begin evaluating completed proposal parts as they are approved by contractor management and submitted. Based on your written request and subsequent discussion with Mr. Kissinger of this office, Headquarters Space and Missiles Systems Center retains sole responsibility for the sufficiency of the procedures agreed upon to accomplish this engagement. DCAA is responsible for completing this engagement in accordance with applicable government auditing standards for agreed-upon procedures.

The agreed-upon procedures we will apply in accomplishing this assignment are as follows:

- ascertaining the basis for the proposed labor rates,
- obtaining and verifying the proposed midpoint of effort and labor escalation,
- comparing proposed base labor rates with current actual labor rates, signed employment agreements, and prior rates of proposed new hires,
- evaluating the estimates for all material components over \$XX using available sources (purchase order history, vendor quotes, inventory prices, DRI indices, decrement factors, etc.)

To maintain auditor independence, the auditor will not assist the contractor to prepare the pricing proposal. The auditor will issue a report to communicate the proposal evaluation results after the contractor submits the formally signed proposal. We anticipate that the issuance of our report will be expedited because of our participation on the IPT. Our report will only pertain to the application of the agreed-upon procedures. We were not engaged to, and will not, perform an examination, the objective of which would be the

expression of an opinion on the subject matter of the report. Accordingly, we will not express such an opinion. Additional procedures, if applied, could bring other matters to our attention that would be reported to you. The report will be prepared using the procedures identified above and any other procedures which may later be agreed upon with you. The information included in our report is intended solely for your use, and should not be used by you or by others for a purpose other than that for which the procedures are established.

We have assigned Mr. Joseph Kissinger, Supervisory Auditor, and Mr. Robert White, Senior Auditor, as our IPT representatives. If you require additional audit services, please contact them at (703) 555-1111 or (703) 555-1112, respectively. Our fax number is (703) 555-9999, and our e-mail address is dcaa-faoxxx@dcaal.mil.

Kalyn LeBlanc
Branch Manager